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BULGARIA

TRADE RELATIONS WITH ARAB COUNTRIES EXAMINED

Sofia VUNSHNA TURGOVIYA in Bulgarian No 9, 1981 pp 7-10

[Article by Sasha Grozdanova: "Trade and Economic Relations Between Bulgaria and Arab Countries"]

[Text] The role of developing countries in international economic relations and their influence in the solution of a number of global economic and political problems are increasing with detente.

The decisive efforts of the majority of developing countries to reorganize international economic relations and the active struggle they are waging against imperialist exploitation are supported by the Soviet Union and the other members of the socialist comity. It is on this basis that friendly relations, based on reciprocal advantages, respect for sovereignty and noninterference in domestic affairs, are created between CEMA-member and developing countries. However, these relations are not based on class solidarity, for most developing countries are following the capitalist way and only a few of them have taken a socialist orientation. However, these are relations of a new type, characterized by international support and aid which the socialist countries are providing the developing states.

Bulgaria maintains particularly active and varied economic relations with the Arab countries.¹ This is based on a number of factors, such as our country's policy toward this group of countries, historical traditions, geographic vicinity, convenient transportation, complementing economic structures and so on.

Trade plays an important role in relations between Bulgaria and the Arab countries. In recent years (1979-1980), more than one half of our trade with developing countries and about 4 percent of our overall trade has been with this group of states. Our trade with the Arab countries increased from 123 million leva in 1970 to 936.2 million leva in 1980.

Bulgaria maintains particularly active relations with the progressive Arab systems. Our trade with Libya, Iraq, Algeria and Syria accounts for 77 percent of our global trade with the Arab world. In 1979, for example, Libya was our 10th biggest foreign trade partner, accounting for 280.8 million leva, followed by Iraq with 137.9 million, Algeria with 104.7 million and Syria with 61.8 million. These countries belong to the 10 developing countries with which Bulgaria maintains most active trade relations.

A study of the trade structure between Bulgaria and the Arab countries over the past 10 years shows a clear increase in the share of productive capital exported to these countries. Starting with 1978, machines and equipment have accounted for more than 50 percent of the total. This is important to the industrialization of the Arab countries, their socioeconomic development and their international economic relations in general. However, the growth rates of our exports of machines and equipment to the Arab countries are still behind the pace and volume of their imports of such goods. On the other hand, during the past few years some countries (Algeria and Iraq) have begun to organize their own production of some types of machines (tractors, metal processing machinery and others), as a result of which they have reduced their imports. At the same time, competition on the part of developed capitalist countries has become more active,² and the requirements of the Arab countries regarding the quality and technical standards of important machines and equipment have increased.

The structure of Bulgarian machine and equipment exports is quite varied. Bulgaria exports mainly metal processing, agricultural, hoisting, power and electrical engineering machinery and equipment. Most of the metal processing machines go to Iraq and Syria. In the future, it is expected that the Arab countries will increase their imports of metal processing machines regardless of their own efforts to increase their domestic production of such equipment. The share of higher precision and more specialized machines will be increased particularly.

The Arab countries will continue to meet their needs for lifting equipment, mainly through imports. For example, in 1979 Bulgaria delivered to Iraq, Lebanon and Egypt 214 forklift trucks, 177 gas-operated lift trucks and 88 electric hoists. Our exports have a good market in these countries. However, of late we have been facing the competition of capitalist countries and, particularly, Japan with increasing frequency.

The Arab world is quite interested in Bulgarian agricultural machinery. A promising market exists for soil cultivation, irrigation and harvesting machinery. Bulgaria exports to the Arab countries various energy and electrical engineering machines and equipment as well.

The increased share of Bulgarian machines and equipment in Arab imports is effectively based on the process of industrialization in the Arab countries. This is closely related to the efficient utilization of the advantages stemming from the participation of the individual countries in the international division of labor.

The Arab countries account for a considerable share of Bulgarian imports from the developing countries. Initially, such imports covered exclusively agricultural products such as rice, olives, citrus fruits, cotton and others. Our country offers a long-term stable market for the traditional agricultural commodities produced by these countries. However, Bulgaria not only imports from but exports to the Arab countries some types of agricultural commodities and foodstuffs. Such items account for 17 percent of our total exports to these countries. Many of them are traditional. This is yet another confirmation of the essentially new approach taken by our country to problems being resolved by the Arab countries, including that of food supplies.

In recent years we have also imported finished and semi-finished goods from the Arab countries. The industrialization underway in the Arab countries leads us to believe

that this process will be developed in the future considerably. With increasing frequency long-term trade agreements stipulate percentages of finished goods. Thus, the long-term cooperation program concluded between Bulgaria and Iraq stipulates imports of tape recorders, fluorescent tubes, fabrics and shoes from Iraq. We can expect that the processing industry which is developing in the Arab countries at a fast pace will offer new and even more interesting export commodities. Chemicals and some types of instruments and other items produced by the Arab countries have already reached our market.

Imports of raw materials from the Arab countries are increasing rapidly as well. They account for four fifths of our imports from these countries. Considerable changes have taken place in their structure as well. The share of industrial raw materials has increased. Imports of petroleum and chemical raw materials such as phosphates, ores and metals, have been increasing most rapidly. The Arab world is the second largest petroleum supplier to Bulgaria, the USSR being first. Most promising in this respect are our relations with Libya, Algeria and Iraq.

These countries can increase their exports of petroleum and mineral raw materials by increasing their output which, in turn, calls for the development of new deposits and installation of more productive capital. The Arab countries lack adequate experience and a number of them are short of means for carrying out such projects through their own efforts. Their cooperations with Bulgaria in surveying and developing their natural resources is substantial. It is consistent with reciprocal interests. Bulgarian geological groups are studying deposits, designing mines and mapping geological charts in Algeria, Tunisia, Syria, Morocco and Iraq. The production, financial and scientific and technical aid they are receiving from Bulgaria in development of some raw material sources make their increased exports to our country possible.

Along with the growth of trade between Bulgaria and the Arab countries, other more progressive forms of economic cooperation are being developed as well. Cooperation in the area of technical assistance is an example of a higher stage of development of such relations.

In recent years, a form of economic cooperation relatively new to our country has been developed: the export of complete projects to countries in that area. The main importers are Iraq, Syria, Algeria and Libya. Bulgaria supplies mainly food industry enterprises such as canneries, greenhouse complexes, light industry enterprises, electric motor production factories, technological lines and others.

Our country has shipped canneries to Ba'quba, Na'maniya, Hair and Shaqlawa and a starch and dextrin plant in Iraq. Feed plants, greenhouses and poultry farms will be delivered to that country.

The exporting of complete equipment for mines and concentration factories has been very successful. Thus, a mine and a phosphate concentration factory were built and equipped in Syria, equipment for the mining of iron ore deposits was delivered to Algeria and so on.

In this respect our country's activities are contributing to the comprehensive development of individual industrial sectors in the Arab countries. Such comprehensive

technical cooperation is very effective and its development will be expanded in the future. To Bulgaria this is a major means for increasing the export of machines and equipment. At the same time it guarantees imports of some raw materials and semi-finished and finished goods.

Another important foreign economic activity conducted by our country in the Arab states is the planning and construction of a variety of projects. This includes roads, airfields, bridges, public buildings, dams and irrigation systems. Syria was the first country in which construction projects were completed: a grain silo, the Rastan and Maharde Dams and other projects. A Bulgarian construction organization designed and built two complete airfields. Bulgarian construction workers completed the civil airport in Baghdad, the sports city in Tunis, sports complexes in Tripoli and Bengazi, the airport in Sebha, the sewer system in Tripoli and a wide network of polyclinics and hospitals in Libya.

Bulgarian construction projects carried out in the Arab countries are focused mainly on the construction of representative projects aimed at improving the infrastructure of the country, directly related to their economic development. Such projects contribute to the strengthening of the state economic sector in the Arab countries and lay the foundations for the development of new industrial sectors.

Scientific and technical cooperation with the Arab countries is developing positively. As a result of many years of colonial slavery, illiteracy in those countries is widespread. There are very few specialists, most of them trained in the former mother countries. The urgent need for scientific cadres of specialists became very quickly apparent as a result of the rapid development of the Arab countries. Such specialists could come from the developed capitalist countries as well. However, since this is a feature of the neocolonial policy of these countries, the Arab states are looking for other sources of such aid. This created objective prerequisites for rapidly increasing the scale of scientific assistance granted by the socialist countries, radically different from that offered by the West. Bulgaria and the remaining socialist countries pursue no secret objectives by assigning their specialists or accepting Arab young people for training in their schools. Thousands of Bulgarian scientific workers and specialists are providing aid on the spot in the areas of agriculture, industry, transportation and health care. Bulgarian specialists began to be assigned to those countries starting with the second half of the 1950s. Bulgarian specialists are at work in Syria, Kuwait, Iraq, Morocco and others. Bulgaria has organized in Arab countries schools, assigned teachers, and accepted specializing and postgraduate students in its schools. In recent years the number of young people from Arab countries undergoing their training in Bulgaria has been increasing rapidly. They come mainly from Algeria, the People's Democratic Republic of Yemen, Lebanon and Iraq. This process will be intensified, for the need for specialists is increasing steadily as a result of the accelerated industrialization of the Arab countries.

Cooperation between Bulgaria and the Arab countries will continue to develop and intensify. This is favored by friendly relations at the highest party and state level. The theses of the 12th BCP Congress reemphasize our country's readiness "to follow a line of accelerated development of foreign economic relations with developing countries," and to support the "struggle of the Arab peoples against imperialism, Zionism and reaction...."³

A number of problems arise in the course of the intensification and expansion of foreign economic relations between Bulgaria and the Arab countries. Their solution is hindered by the variety of political regimes in the Arab countries, frequent internal contradictions, which result in military conflicts, and the political instability of the area.

The close economic ties with the imperialist countries created during the colonial period present problems as well. For this reason, it is becoming increasingly necessary for the quality of our goods to meet world standards, to be adapted to the specific weather conditions of the Arab world and so on. Bearing in mind the ambitious economic development programs of the Arab countries, which stipulate the accelerated building of textile and food industries, machine building and metallurgical enterprises, Bulgaria could considerably increase its export of complete enterprises, based on its considerable production experience and cadres.

Agricultural equipment exports is a traditional element in our cooperation with the Arab countries. In order to develop it further, we must promptly organize the qualitative technical servicing of exported machines and equipment. Good service and regular availability of spare parts is of major importance in enhancing Bulgaria's reputation as an exporter of machines and is an additional factor in stimulating sales.

The timely delivery of goods to the Arab countries and improvements in advertising are important problems. Greater attention must be paid also to the study of the Arab market and to the search for less expensive and more efficient transportation routes.

Our imports from Arab countries face problems as well. The great backwardness of some Arab countries and the lack of export potential (other than petroleum) create a number of difficulties. Some countries try to balance their trade with Bulgaria, which is of essential importance to them. They try to pay for their imports with exports. However, because of their limited export possibilities, they impose deliberate restrictions to our exports.

The rapid development of the petroleum processing industry in the Arab world creates opportunities for increasing imports of petroleum products. We should ask our deliveries to be paid in raw materials. This is important in resolving the raw material problem of our country.

Socialist economic integration is one of the basic factors which contribute to the intensification of our relations with the Arab countries. It helps us steadily to improve production forces and to increase social labor productivity. This increases Bulgaria's export possibilities.

The successes achieved by CEMA-member countries in the development of their national economies are a major attractive force for the young independent countries. This interest was confirmed in 1975 when the first cooperation agreement was concluded between CEMA and the Arab state of Iraq. Its purpose is to promote comprehensive economic cooperation and, at the same time, to expand and intensify contacts on a bilateral basis.

The CEMA-member countries engage in joint and coordinated participation in construction projects, supply of complete enterprises and geological surveys in the Arab

countries. Bulgaria and the USSR have already completed several joint projects such as phosphate mines in Jordan, Morocco and Tunisia, and a complex for the production of chemical fertilizers and sulphuric and phosphoric acid in Iraq. Natural resources are being developed in Algeria through the joint efforts of Soviet, Bulgarian and Romanian specialists. Bulgaria, Poland, Romania and the GDR built and equipped three phosphate extraction industry projects in Syria.

However, the problem of engaging in more extensive production specialization and co-operation between CEMA-member countries and Arab states remains unresolved. The severe economic backwardness of the Arab world remains one of the basic reasons for this.

Improving the cooperation mechanism plays an important role in the development of various forms of foreign economic relations. An organizational-legal mechanism for their regulation has been elaborated. It includes bilateral intergovernmental treaties for trade, economic and scientific and technical cooperation and cooperation in carrying out specific projects. Agreements of a new type are being concluded, based on the adoption of long-term programs. They provide a stable foundation for the development of reciprocal economic relations and are becoming a factor in stabilizing the economy of the Arab countries. Bulgaria has organized mixed intergovernmental commissions with some of the bigger Arab countries. They call for the organization of work groups, sections and subcommissions with the participation of major specialists. This protects the interests of the countries and makes the coordination of joint measures possible.

The comprehensive economic and scientific and technical cooperation with the Arab countries and the implementation of a policy aimed at supporting their struggle for political and economic independence objectively strengthen the positions of the anti-imperialist front in the interest of detente and create opportunities for a radical reorganization of contemporary international economic relations. The intensification of such relations in the future may be expected. They are one of the effective means of supporting the Arab countries which enables them to follow the path of progressive social changes they have chosen.

FOOTNOTES

1. The Arab countries are: Algeria, Bahrain, Egypt, Iraq, Yemen, Jordan, the People's Democratic Republic of Yemen, Kuwait, Qatar, Libya, Lebanon, Mauritania, Morocco, the United Arab Emirates, Oman, Sudan, Saudi Arabia, Syria, Somalia and Tunisia. According to United Nations data, in 1978 the population of the Arab countries totaled close to 145 million people with a territory of 14 million square km spread over Asia and Africa. The territory of the Arab countries accounts for about 55 percent of the world's petroleum reserves and one sixth of the global reserves of natural gas.

2. For example, in recent years the developed capitalist countries have become the main partners of Egypt, Tunisia and Morocco.

3. RABOTNICHESKO DELO, 10 April 1981.

BULGARIA

STATISTICAL DATA ON BULGARIAN FOREIGN TRADE

Sofia VUNSHENA TURGOVIYA in Bulgarian No 9, 1981 pp 26-27

[Report: "1980 Foreign Trade of the Bulgarian People's Republic in Figures"]

[Text] In 1980, Bulgaria's foreign trade totaled 17,184,000,000 foreign exchange leva (8,901,500,000 leva exports and 8,282,900,000 leva imports). Between 1960 and 1980 foreign trade increased by a factor of 9 in physical terms; overall industrial output rose by a factor of 6, agricultural output doubled and the national income quadrupled.

The USSR accounts for about 54 percent of Bulgaria's trade, while the remaining CEMA-member countries account for 20 percent. Between 1960 and 1980 trade with CEMA-member countries increased by a factor of 14; trade with the developing countries increased by a factor of more than 15 (2.83 billion leva in 1980), and by a factor of 37 with the developing countries (1.52 billion leva in 1980).

Machine building output accounts for 42.2 percent of total exports. Specialized goods worth 1.79 billion leva were exported. Exports of complete projects totaled 278 million leva to the developing countries and 106 million to CEMA-member countries (mainly canneries for fruits and vegetables, and chemical and construction enterprises).

Bulgarian Exports of Specialized Machines and Equipment for Industrial Purposes

	1970		1980	
	(1) млн. лева	%	(1) млн. лева	%
Общо (2)	224.0	100.0	1789.7	100.0
В това число: (3)				
Енергетични и електро- технически машини (4)	0.6	0.3	129.3	7.2
Електротехнически ма- шини (5)	0.6	0.3	126.5	7.1
Подъемно-транспортни машини (6)	146.6	65.5	666.6	37.3
Електрокари (7)	117.6	52.5	321.4	18.0
Електротелфери (8)	29.0	13.0	148.4	8.3
Съоръжения за леката и хранителната промиш- леност (9)	0.5	0.2	42.7	2.4
Свързочни съоръжения (10)	0.6	0.3	103.7	5.8
Електронна изчислител- на техника (11)	1.4	0.6	441.3	24.7
Трактори и селскосто- пански машини (12)	49.4	22.1	86.5	4.8
Трактори (13)	2.9	1.3	31.7	1.8
Селскостопански машини (14)	46.5	20.8	54.8	3.1
Транспортни средства (15)	23.0	10.3	120.6	6.7
Кораби (16)	14.8	6.6	67.7	3.8

1. Specialization based on recommendations of CEMA and on bilateral agreements with CEMA-member countries.

- Key:
- | | |
|---|---|
| 1. million leva | 9. light and food industry equipment |
| 2. total | 10. communications equipment |
| 3. including | 11. electronic computers |
| 4. power and electrical engineering machinery | 12. tractors and agricultural machinery |
| 5. electrical engineering machinery | 13. tractors |
| 6. hoisting machinery | 14. agricultural machinery |
| 7. forklift trucks | 15. transportation facilities |
| 8. electric hoists | 16. ships |

Bulgarian Main Trading Partners in 1980 (in million leva)

Страна 1)	Сто- кооб- мен2)	Из- нос3)	Внос 4)
СССР 5)	9188,5	4444,7	4743,2
ГДР 6)	1034,4	486,7	547,7
ПНР 7)	671,9	343,9	328,0
ФРГ 8)	623,6	226,9	326,7
ЧССР 9)	584,5	274,5	310,0
Либия 10)	402,2	318,9	83,3
Гърция 11)	392,7	338,9	43,8
СРР 12)	356,6	196,5	160,3
Швейцария 13)	343,9	198,5	145,4
Куба 14)	268,8	155,4	113,4
Италия 15)	245,9	145,7	118,7
Франция 16)	243,2	95,7	147,5
СФРЮ 17)	240,8	145,7	95,1
Англия 18)	226,4	127,1	99,5
Австрия 19)	219,2	81,7	137,5
Иран 20)	173,4	125,1	48,3
Ирак 21)	138,9	123,4	15,5
Белгия 22)	110,1	30,5	79,6
САЩ 23)	106,3	40,8	65,5
Турция 24)	106,0	94,0	12,0
Алжир 25)	105,0	102,8	2,2
Холандия 26)	97,8	49,1	48,7
Япония 27)	62,3	21,1	41,2
Сирия 28)	62,0	55,5	6,5
Китай 29)	57,9	22,8	35,1
Швеция 30)	49,9	17,4	32,5
Ливан 31)	46,1	44,5	1,6
СР Виетнам 32)	45,3	36,7	8,5
Испания 33)	41,8	19,0	22,8
Мароко 34)	32,4	20,3	12,1
КНДР 35)	26,3	7,1	19,2
Пакистан 36)	26,1	20,5	5,6
Йордания 37)	24,6	—	24,6
Нигерия 38)	24,0	23,7	0,3
Финландия 39)	23,8	11,4	12,4
Египет 40)	21,8	21,8	—
Бразилия 41)	21,8	5,4	16,4
Албания 42)	21,1	11,2	9,9
МНР 43)	17,6	9,8	7,8
Канада 44)	14,7	3,4	11,3
Дания 45)	14,4	3,9	10,5
Тунис 46)	13,0	7,1	5,9
Аржентина 47)	11,4	7,1	—
Кувейт 48)	7,1	5,2	6,2

Key:

1. country
2. trade
3. exports
4. imports
5. USSR
6. GDR
7. Poland
8. FRG
9. Czechoslovakia
10. Libya
11. Greece
12. Romania
13. Switzerland
14. Cuba
15. Italy
16. France
17. Yugoslavia
18. Great Britain
19. Austria
20. Iran
21. Iraq
22. Belgium
23. United States
24. Turkey
25. Algeria
26. The Netherlands
27. Japan
28. Syria
29. China
30. Sweden
31. Lebanon
32. Vietnam
33. Spain
34. Morocco
35. Korean People's Democratic Republic
36. Pakistan
37. Jordan
38. Nigeria
39. Finland
40. Egypt
41. Brazil
42. Albania
43. Mongolia
44. Canada
45. Denmark
46. Tunisia
47. Argentina
48. Kuwait

Bulgarian Exports and Imports by Production Sector (annual prices)

Key:	(A) Отрасли на материалното производство	(B) Износ				(D) Внос			
		1970		1980		1970		1980	
		млн. лв.	%	млн. лв.	%	млн. лв.	%	млн. лв.	%
A. Material production sector	Общо (E)	2344.5	100.0	8901.5	100.0	2142.3	100.0	8282.9	100.0
B. Exports	в това число: (F)	2132.6	91.0	8247.4	92.7	2101.7	98.1	8111.2	97.9
C. Million leva	Промисленост (J)								
D. Imports	от него: (H)								
E. Total	1. Електроенергия и топлин енергия	3.5	0.2	25.2	0.3	3.3	0.2	146.8	1.8
F. Including	2. Топливна промисленост	6.5	0.3	825.1	9.3	266.6	12.5	2207.9	26.7
J. Industry	3. Черна металургия (вкл. руди)	105.1	4.5	331.0	3.7	262.6	12.3	816.6	9.9
H. Of which	а) черна металургия (а)	105.1	4.5	330.9	3.7	246.9	11.5	776.4	9.4
1. Electric and thermal power	4. Машиностроене и металообработване	699.6	29.8	3913.1	44.0	933.4	43.6	3098.8	37.4
2. Fuel industry	а) машиностроене	681.2	29.1	3756.6	42.2	878.4	41.0	2982.4	36.0
3. Ferrous metallurgy (including ores)	5. Химическа и каучукова промисленост	209.2	8.9	727.7	8.2	229.6	10.7	727.9	8.8
a. Ferrous metallurgy	а) химическа промисленост	189.8	8.1	681.9	7.7	191.1	8.9	669.7	8.1
4. Machine building and metal processing	6. Промисленост за строителни материали	7.4	0.3	55.3	0.6	13.4	0.6	48.9	0.6
a. Machine building	7. Дърводобивна и дървообработваща промисленост	50.6	2.2	84.3	0.9	24.4	1.1	49.2	0.6
5. Chemical and rubber industry	8. Целулозно-книжна промисленост	3.9	0.2	9.5	0.1	51.4	2.4	155.0	1.9
a. Chemical industry	9. Стъкларска и порцелано-фаянсова промисленост	10.9	0.5	42.8	0.5	6.8	0.3	14.7	0.2
6. Construction materials industry	а) порцеланова и фаянсова промисленост (а)	8.3	0.4	20.2	0.2	5.8	0.3	10.7	0.1
7. Timber extracting and timber processing industry	10. Текстилна промисленост	58.4	2.5	150.5	1.7	112.9	5.3	185.7	2.2
8. Cellulose-paper industry	11. Шивашка промисленост	105.1	4.5	146.7	1.6	1.9	0.1	6.0	0.1
9. Glassware and porcelain industry	12. Кожарска, кожухарска и обувна промисленост	43.0	1.8	75.8	0.9	4.6	0.2	23.5	0.3
a. Porcelain industry	13. Полиграфическа промисленост	5.2	0.2	7.2	0.1	6.7	0.3	18.4	0.2
10. Textile industry	14. Хранително-вкусова промисленост	748.4	31.9	1717.7	19.3	118.5	5.5	279.9	3.4
11. Clothing industry	а) месна промисленост (а)	49.1	2.1	134.8	1.5	20.2	0.9	21.1	0.3
12. Leather, fur and shoe industry	б) консервна промисленост (б)	175.8	7.5	416.3	4.7	7.3	0.3	23.0	0.3
13. Printing industry	в) млечна промисленост (с)	20.1	0.9	51.3	0.6	—	—	6.8	0.1
14. Food industry	г) вино и спиртни напитки (д)	149.7	6.4	366.6	4.1	2.5	0.1	24.6	0.3
a. Local industry	д) тютюнева промисленост (е)	304.8	13.0	710.1	8.0	5.6	0.3	21.3	0.3
b. Canning industry	Селско стопанство	204.6	8.7	355.5	4.0	36.5	1.7	156.8	1.9
c. Dairy industry	1. Растениевъдство	162.1	6.9	245.0	2.8	31.7	1.5	148.9	1.8
d. Wine and alcoholic beverages	2. Животновъдство	42.5	1.8	110.5	1.2	4.8	0.2	7.9	0.1
e. Tobacco industry									
I. Agriculture									
1. Crop growing									
2. Animal husbandry									

Based on "Vunshna Turgoviya na NRB. Statisticheski Dannii, 1960-1980" [Foreign Trade of the Bulgarian People's Republic. Statistical Data 1960-1980]. Sofia, 1981, pp 20-26,30-33.

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ESTIMATED COAL MINE EXHAUSTION DISCUSSED

Development of Sokolov Coal Mining District

Prague UHLI in Czech No 9, 1981 pp 323-327

[Article by Eng Josef Pluhar and Engr Jaroslav Krov, SHR [North Bohemian Brown Coal District], Teplice Mining Projects, k.u.o. [Specific Purpose Organization] Ostrov branch: "The Concept Underlying the Development of the Sokolovo Coal Mining District"]

[Text] Solid fuels are of key importance in the national economy for satisfying the fuel-energy needs of the society. Securing an adequate fuel and energy supply is becoming the potential basis of the entire state economy and, together with the application of the latest scientific and technological achievements for designating an economical type of energy consumption, determines the effective level of the entire national economy.

Solid fuels and, in the first place, coal, will constitute the basic component of the fuel-energy balance in the future, too. A number of analyses point to the worldwide necessity of using coal for production of energy.

In our fuel-energy situation, solid fuels play the principal role at the present time because they account for 62 percent of the total consumption of primary fuels for energy production. Total output was 125 million tons of coal and lignite in the CSSR in 1980, 97 million tons of which was brown coal. The planned structure in the production of graded types, however, was not attained. Moreover, the higher target of 98.5 million tons set for brown coal production was not met.

Electric energy consumption, whose principal production basis is brown coal, increased from 5 billion kWh in 1945 to 72 billion kWh in 1980. The task laid down by the guideline of the 15th CPCZ Congress to produce 77-79 billion kWh of electricity in 1980 was not accomplished.

Brown coal production of 97 million tons was achieved under demanding conditions of building new mining capacities, permanent deterioration of natural mining conditions and decline of qualitative parameters of mined coal. Due also to their more intensive exploitation in the past, several mining capacities are gradually approaching their depletion. The output increase was thus achieved by the opening of new mines and reconstruction, expansion and modernization of existing mining capacities.

While the upward statewide trend in production of solid fuels was rather significant, the Sokolov coal district achieved an even higher increase. A total of 3.3 million tons of coal were mined in the district in 1945, but coal output exceeded 20 million tons in 1980, a sixfold increase.

The development of the Sokolov brown coal district and the increase in output was characterized by the gradual transition from underground to surface mining with the use of modern technology and equipment, and centralization of the coal-preparation process. The degree of concentration of mining operations is clear from the fact that, while 33 mining plants (including 25 underground mines) extracted a total of 3.3 million tons of brown coal in 1945, the 1980 output was achieved by 8 surface and one underground mine.

The concentration and centralization of mining operations has been noticeably reflected in better economic results. This exerted positive influence on the reduction of mining and coal preparation costs, increase in labor productivity and substantially better exploitation of seams worked.

Mining conditions, however, continue to deteriorate because mining operations must be directed to lower depths with a thicker overburden and also to the areas disrupted by previous underground mining.

With the increased coal output, the Sokolov brown coal district assumed gradually greater importance in the fuel-energy balance of our state.

The past development of the Sokolov district was affected by the following basic factors:

- the volume of exploitable coal deposits, their location and quality;
- gradual concentration of mining operations, expansion of strip mining and factors contributing to better economic results;
- position of the coal district in the area with developed industry which is far from imported fuel and energy sources;
- traditional exports of coal to foreign countries;
- finally also by the fact that mining operations significantly affect economic and social life in the Sokolov district.

Together with the mining and technical conditions, these factors, even from the very outset, affected the concept of the long-term development of the district in which gradually conditions were created for the use of coal on the spot and for satisfying the needs of the national economy by the deliveries of briquettes, electric energy, gas and heat. At the same time, attempts were made to make more effective use of Sokolov coal, part of which is suitable for briquetting or gasification, and another considerable part--with low sulfur content and relatively low content of ash matters--for use in power plants.

Due to Sokolov coal's average caloric value of approximately 12.142 MJ, the considerable (40-45 percent) water content in raw coal reduces efficiency of its use in areas remote from the district.

The deadlines necessary for the preparation and implementation of investment projects providing for new mining capacities and even more demanding preparation and implementation of subsequent investments make it necessary to forecast and work out the long-range concepts of brown coal mining until the complete depletion of all known and proven deposits. The opinions on such a concept of the district's development were summarized by the Teplice Mining Projects specific purpose organization, Ostrov branch in 1980 under the title "A Special-Purpose Study of HDB [Brown Coal Mines And Briquette Plants] Sokolov--1980 updating."

The following developmental stages may be distinguished in the concept of long-term development:

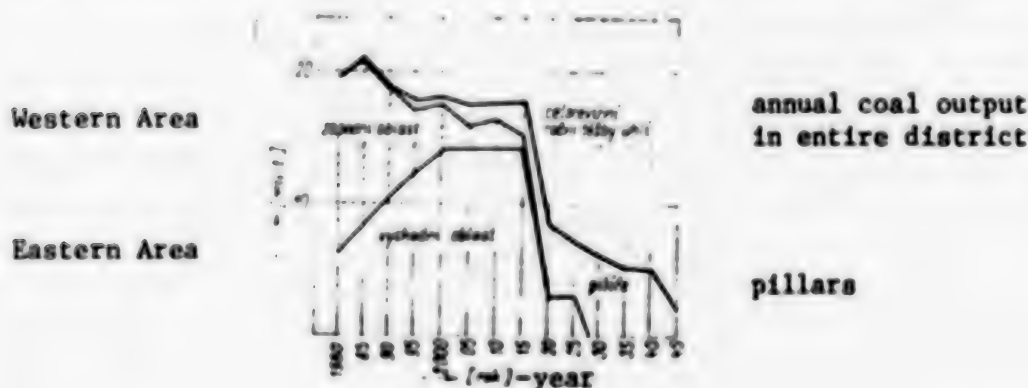
- increased mining operations in the western area;
- increased mining operations in the eastern area;
- exploitation of safety pillars of Svatava and Ohre rivers together with the pillars of the town of Soklov;
- long-term prospects of the exploitation of the Karlovy Vary-Ostovice district.

According to the assessment on 1 January 1980, there are approximately 834 million tons of exploitable brown coal deposits in the Sokolov district (the total amount of both definitely located and estimated deposits).

The division of the district into the western and eastern sections is determined by the natural boundary, that is the Ohre and Svatava riverbeds.

The long-term concept of the development of the district indicates a permanent decline in the output of the entire district, although the output from the eastern area is expected to increase significantly during the 1985-2010 period (Fig 1).

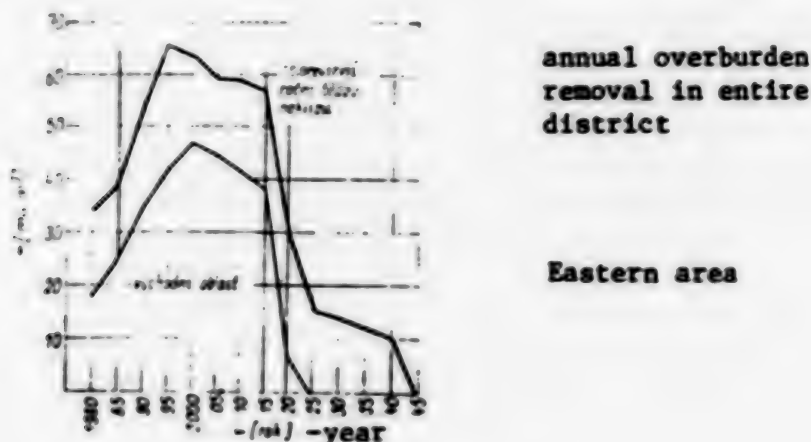
Fig 1 Development and Structure of Annual Coal Output in Sokolov District



The diagram in Fig 1 makes it clear that the decline in output would be even more significant without the exploitation of seams in the protective pillars and would shorten the service life of the entire district.

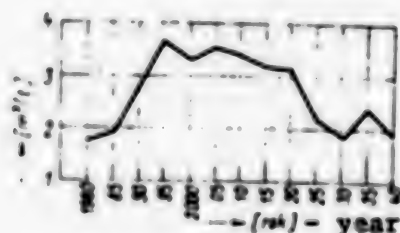
Another typical feature of the long-term development of the district is the general trend in extracted materials which has a rising tendency up to the year 2000 despite declining coal output (Fig 2). This is a natural consequence of the deteriorating overburden factor resulting from the geological position of seams.

Fig 2. Development of Annual Overburden Removal in the Sokolov District



The development of the indicator of the overburden removal in relation to the coal output is evident from Fig 3.

Fig 3. Relation of Overburden Removal to Coal Output in Sokolov District



There is a steadily increasing demand for a bigger output of coal in both districts under the Ore Mountains which is needed as raw material and in the power plants, while the conditions for the satisfaction of these needs are becoming increasingly complex even today--and even more so in the future. The existing coal deposits are exhaustible and the intensity of the annual outputs determines the time limit of their complete depletion.

Another major obstacle which will have to be overcome by the increased effort of the entire society is the problem of timely measures for the exploitation of residual safety pillars under the industrial and residential built-up area.

Moreover, additional specific, objectively existing problems in the Sokolov district must be taken into account:

--lack of waste dump areas in the varied terrain;

--compliance with the conditions of hydrogeological protection of curative springs in spas;

--difficulties connected with the potential appropriate relocation of the Ohre and Svatava riverbeds;

--demanding solution of the problem of releasing space under the town of Sokolov for mining operations.

The demanding nature and complex interdependence of all related areas of society's life makes it evident that the solution of most developmental problems requires unusually long periods for design, preparation and implementation. This means that a comprehensive solution must be worked out several decades ahead.

From the large initial and subsequent investments required by mining operations it is clear that the necessary capacity of supplier organizations has to be gathered together in the mining area. Such a task cannot be accomplished during the brief developmental period.

Development of Western Area

During the first stage of development of the Sokolov brown coal district, attention centered on the opening and development of the Silvestr, Medard I, Medard II, Gustav and Libik mines in the western section of the district. These mines possessed more advantageous mining-technical and economic conditions due to the better quality of coal, advantageous overburden-coal ratio, smaller necessary investments and, last but not least, also to the fact that their development did not require big initial investments since most of these mines were already in operation by then.

Through the development of mines in the western area, conditions were created for adequate coal supply to the Tisov power plant which was gradually put into operation during the 1959-1963 period with an installed output of 512 MW.

To make full use of the coal substance, a coal-preparation plant was built at Tisov with an annual capacity of 6 million tons and a briquetting plant with the annual capacity of 0.5 million tons of briquettes.

Apart from deliveries to the above-mentioned users, coal from these mines is delivered to the briquetting plant at Vresova, graded coal to households and communal services and high-quality, above all, fine coal is exported.

Due to the decreasing supplies in the mines now in operation, the coal output increase in the western area as illustrated in Fig 1 cannot be achieved without opening of additional mines, naturally after their detailed technical and economic evaluation, during the next stage of development.

This will include primarily the exploitation of residual coal deposits in the Josefska seam with a high sulfur content and of marginal, qualitatively inferior coal deposits of the Antonin seam. The common characteristic of these seams is the small quantity of coal supplies and thus also small mining capacity which will not exceed 1.5 million tons per year in individual seams.

Due to the relatively high sulfur content, this coal will be possible to utilize after its homogenization in the preparation plants of the district so that the sulfur content does not exceed the tolerable limit.

Specifically, the plans for opening of the Madard-Josef and Michal II mines must be worked out in detail in connection with the gradual termination of mining operations in some of the mines.

Fig 4 illustrates the trend in coal output and Fig 5 the trend in overburden removal in the western area of the Sokolov district.

Fig 4. Trend in Annual Coal Output in the Western Area of the Sokolov District

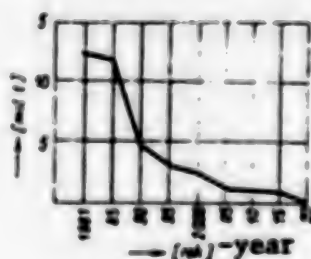
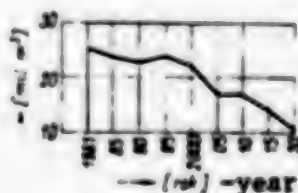


Fig 5. Trend in Annual Overburden Removal in the Western Area



From the diagrams in Fig 4 and Fig 5, it follows that the drastic decline in output in the present mines of the western area can only be alleviated but not stopped by the development of new mines. It must be taken into account at the same time that the development of some of these mines will be technically as well as economically very demanding regardless of the complex problems in territorial relations and sales.

Development of Eastern Area

Because of the intensive exploitation of mines in the western area of the Sokolov district, mining operations are rapidly coming to an end. For this reason, mining operations will be expanded in the eastern section of the Sokolov district during the second stage. Extraordinary attention was paid to the development of the Jiri mine (originally the Jednota mine) and Druzba in recent years. Apart from these two mines, there is only one underground mine—Marie Majerova—in operation now. The present output in this area accounts for approximately 33 percent of the output in the Sokolov district.

The eastern part of the Sokolov district is of key importance for further development of the district. It is anticipated that it will be exploited up to the year 2020.

The mines of the eastern section constitute the raw materials basis for the Vresov Combine for Utilization of Brown Coal and for production of electric energy. The rest of coal deliveries is earmarked for other industries, households and communal economy. Coal from the Marie Majerova underground mine is delivered to glass, ceramics and textile industries, and coal yards.

The present concept of expanded mining operations in the eastern area has so far anticipated independent operation of the Jiri mine as the key mining locality, the Druzba mine, the Limicky mine and Marie Majerova underground mine with the exploitation of the Antonin seam.

In the giant Jiri mine, the preliminary plan calls for the exploitation of the Alberov section whose exploitable deposits in the Antonin seam represent 315 million tons of coal. The maximum annual coal outputs amounting to 9 million tons are planned for the 2000-2016 period. The advances of working faces based on the preliminary studies had to take into account the ban on mining in the area of Kralovske Porici and also the protective pillar of the CSD [Czechoslovak State Railways] track.

The relocation of the CSD Chomutov-Cheb line in the Chodov-Sokolov section which interfered with the desirable expansion of working faces in the Druzba and Jiri mines was completed in 1980.

The working faces of the Druzba mine are now directed to the exploitation of the released gangway pillar with the subsequent advance into the area of the former Nove Sedlo railway station.

The hydrogeological exploration completed and evaluated by now has opened the possibility of strip mining in the Kralovske Porici panel. Through this measure the long-term concept of mining in the eastern area enters a new stage in which the conclusions of exploration will be used for specific projects. The exploitable substance of the seam will substantially increase by the permission for strip mining in the areas protected so far, and the opening of a new mining location will make possible an increase in annual outputs in the eastern section of the district over the level previously anticipated.

At the present time, alternative variants to developing a new Marie Majerova mine are being studied in order to reach the final decision on its development. The directions of the working face advance must be mutually coordinated with the advances in the Jiri and Druzba mines, and the problem of waste dumps is linked to the situation in the entire district.

It is economically advantageous to employ efficient technological units of the TC 2 series in large mining areas of modern mines and thus, through concentrated output, to substantially raise the labor productivity level. Under the conditions of the eastern section, these units already operate in the Jiri mine. The mining and technical conditions of exploitation in other mines are suitable for employment of technological equipment of the TC 1 series.

The effort to increase annual coal outputs in the eastern area led to the tentative projects for intensified mining in the Lomnický mine.

Another necessary prerequisite for the successful development of the eastern area is providing adequate areas for waste dumps and combining them with the waste dumps in the western area. This problem has not been satisfactorily solved as yet and constitutes one of the principal problems of further development of the Sokolov district which must be systematically studied and dealt with.

The increase in the annual coal output of the eastern section (Jiri, Druzba, Lomnice and Marie Majerova mines) is shown in Fig 6.

Fig 6. Trend in Annual Coal Output of Eastern Section

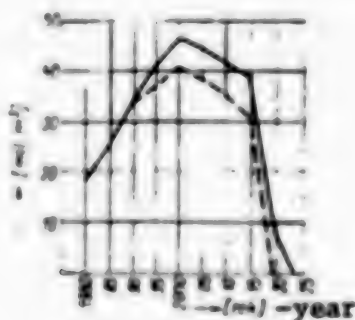
--output including M. Majerova mine --output excluding M. Majerova mine



The amount of overburden removal in these mines up to the year 2025 is illustrated in Fig 7.

Fig 7. Trend in Annual Overburden Removal in Eastern Section

--including M. Majerova mine --excluding M. Majerova mine



Exploitation of Supporting Pillars

The provisions of Law No 41/57 on exploitation of mineral wealth provide for the largest possible and, at the same time most economical, exploitation of minerals for socialist industrial production and construction.

For this reason, the already mentioned study prepared by the Teplice Mining Projects for the first time explores the possibilities and conditions of exploitation of supporting pillars. In the Sokolov district, this includes coal in pillars excluded from mining in the following areas: Cista, Habartov, Svatava community and river, Sokolov, Ohre River and CSD, Michal II, the Josef seam in the Alberov panel. The residual supplies representing 243 million tons of coal for the most part are located under the industrial and residential built-up area, and the preparation of and actual mining operations in these areas is, therefore, particularly demanding and expensive.

The new solutions proposed by the study interfere with the present concepts of other sectors in the area in question. It will, therefore be, necessary to evaluate them from the standpoint of the entire society and subsequently to revise the existing territorial plans. This is a time-consuming and very demanding task.

Karlovy Vary-Otovice Section of Sokolov District

The Karlovy Vary-Otovice district lies close to Karlovy Vary spa and extends from the community of Stara Role in the west across Cankov, Sedlec, Otovice to the communities of Lesov and Sadow in the east. The coal deposits here are situated in the Antonin seam with a variable thickness from 4 to 35 meters. The mining operations were extensive and scattered in the past. Individual sections are of different geological structure.

The complex relations between the developing of mines and actual mining operations and important interests of the entire society and nearness of the Karlovy Vary spa were and are being studied by experts from many areas, such as urbanism, ecology, climatology, hydrology and hydrogeology, who must also take into account broader social, economic and esthetic aspects.

Cheb Brown Coal District

The Cheb district consists of an extensive deposit not exploited at the present time which contains a considerable quantity of brown coal (more than a billion tons).

In comparison with the Sokolov district, the Antonin seam here is situated much deeper and less advantageously, and is substantially thinner (with the exception of the Oldrichov-Pochlovice section in the eastern area).

In the Sokolov district, the overburden-coal ratio reached the following values (cubic meters/ton):

1955 - 1.120	1970 - 2.143
1960 - 1.194	1975 - 2.314
1965 - 1.928	

and in the future, just before the depletion of the district, is expected to reach 3-3.5 cubic meters/ton.

In the Cheb district, it would be necessary to remove on the average 15-20 cubic meters of overlaying strata per ton of coal and only exceptionally would there be found a deposit with a 10 cubic meter/ton of overburden-coal ratio.

The present knowledge of properties and position of deposits in the Cheb district points to the unsuitability of their exploitation by strip mining from all key standpoints:

--considerable overburden-coal ratio, rather thinness of the coal seam, removal of huge quantities of overburden;

--complex and extraordinary demanding nature of protecting curative springs at Frantiskovy Lazne spa and sources of drinking water;

--expensive necessary investments, extensive devastation of the region and sequestration of agricultural land;

--demanding technical and investment requirements and economic unfeasibility.

For these reasons, the future will have to focus on the underground exploitation of deposits in the Cheb district.

The considerably area of tertiary productive strata (category C₂) of the Cheb district (approximately 119 square kilometers), relative lack of their exploration and the demanding nature and high costs of hydrogeological exploration in relation to the protection of natural curative springs of the Frantiskovy Lazne spa make it necessary to delimit, on the basis of present knowledge, those parts of the deposit (locations) which are suitable and possess prerequisites for mining operations. In locations promising for exploitation, it is necessary to carry out hydrogeological and deposit research to obtain documentary material and ascertain conditions under which mining operations could be carried out. In addition, in those locations in which it appears purposeful and advantageous, it is necessary to continue exploration and to make the deposit accessible through underground workings in order to better verify the properties of the coal seam and conditions of its exploitation, and to speed up the opening of the deposit and start of its exploitation.

For purposes of study and forecasting the brown coal output in the Cheb district, we can assume that if only one-third of total deposits of more than one billion tons, that is, 350 million tons of coal, could be extracted by underground mining, then allowing for 50 percent losses in the yield, there still will be approximately 170 million tons of coal available.

On this basis, the long-term plan of development can call for the establishment and operation of 4-5 underground mining plants with a total output of 3-4 million tons per year and an average period of exploitation of approximately 40 years. The annual output by one plant should amount to 0.5-1 million tons.

To achieve this goal, it would be necessary to select, during the Seventh Five-Year Plan, the locations suitable for underground mining and to specify the measures for protection of the springs at Frantiskovy Lazne as well as the conditions for safe underground operations. Later on, in the course of the Eighth Five-Year Plan, it would be necessary to create--possibly in the form of exploratory underground workings--conditions for verification of coal deposits and construction of one or two underground mining plants which would be put into operation as early as the Ninth Five-Year Plan.

The Sokolov district which since 1945 has gradually switched from rather extensive underground mining to stripping in the entire area of the Sokolov district (with the exception of the Marie Majerova pit) does not possess conditions for extensive underground mining at the present time.

The eventual decision on the preparation and development of underground mining in the Cheb district must, therefore, be preceded by creation of conditions for hiring of qualified labor force, training of apprentices for work in the mines, housing construction and so on.

Conclusions

The problems of expanding mining operations in the Sokolov brown coal district can thus be summarized as follows:

1. in view of the fact that the deposits in the western area will be soon exhausted, it is necessary to intensify the preparation of mining operations in the eastern area;
2. providing adequate waste dumps is one of the principal problems of the territorial plan;
3. a major problem of expanded coal mining operations is providing of mining locations with reliable mining and transportation equipment and organization of efficient repair shops;
4. the extent of investments during the long-term development points to the necessity of transferring adequate construction and assembly capacities to the district;
5. it is necessary to continue and evaluate hydrogeological research and define with more precision the measures designed to protect the natural sources of curative mineral waters at Karlovy Vary spa;
6. in connection with the depletion of deposits in the western area of the Sokolov district in sight, the focal point of mining operations will move eastward. The concentration of mining operations in the eastern area will give rise to problems in the distribution of employment;
7. the study makes it clear that within an urgently brief period it will be necessary to comprehensively cope with the problems related to the complete depletion of coal deposits in order to make possible the adoption, without serious consequences, of socially important decisions on the further development of the fuel-energy basis in the Sokolov district.

Development of Vrsany Mine

Prague UHLI in Czech No 9, 1981 pp 334-338

[Article by Eng Josef Marik and Eng Albert Hotovy, SHR, Teplice Mining Projects, k.u.o. [Specific Purpose Organization]: "The Concept Underlying the Development of Vrsany Mine"]

[Text] The intention of driving a separate opening in the southern part of the Sverma mine mining space is not new; it originated during the 1955-1960 period.

The 1971 forecast of the long-term development of the North Bohemian brown coal district and the 1972 study on supplying power plants with coal pointed to the necessity of making up for the decline in brown coal output after the closing down of the Smeral and Triskolupy mines by opening another mine. In this general area, the Havran panel of the Bylany mine and the southern part of the Sverma panel could be considered in this context.

In view of maximum economy in the use of coal and of utilization of inferior fuels some consideration was given at the outset to the development of the Bylany mine. In the course of preparation it became clear, however, that present power generating equipment cannot use these fuels effectively without expensive and time-consuming reconstructions.

The situation thus forced the development of the Vrsany mine with coal of higher quality prior to the development of the Bylany mine.

Exploitation of the Panel

The delimited panel with the area of 745 hectares contains approximately 113 million tons of exploitable deposits of brown coal used by the power plants with a caloric value of approximately 9.79 MJ/kg. The coal stratum consists of three seams.

The first top seam about 5 meters thick is situated 20 meters below the surface and thus intermingles with overburden. Its area is limited to the southwestern part of the panel and a narrow strip along the western and northern demarcation from the Sverma mine. It accounts for approximately 14 percent of exploitable deposits. Seams No 2 and No 3 are 15-17 meters thick. The stratum between the two seams is 15-20 meters thick. The intermediate seam, No 2, is separated from the top seam by a deep stratum which in some spots reaches a thickness of 60-70 meters. Seams No 2 and No 3 extend essentially over the entire area of the delimited panel and represent 59 percent plus 27 percent = 86 percent of exploitable deposits. The yield in the Vrsany panel is about 32.55 tons per cubic meter. [as published] So far as overlaying strata are concerned, approximately 350 million cubic meters will have to be removed. The overburden-coal ratio is 3.09 cubic meters per ton.

The complex tectonic conditions of coal deposits in the delimited area are further complicated by the sand strata inundated by water from artesian wells.

These basic conditions determine also the general concept of the deposit's exploitation.

Mining operations will be preceded by the intensive drainage of the solid stratum through barriers of borings which will be made ahead of the advancing working face in the overburden.

The advance of working faces both in the overburden and coal strata will be essentially parallel and will proceed from the southern boundary of the mine in the northern direction to the artificial northern demarcation of the panel of the Sverma mine.

As long as space in the mine is available, the completely exhausted Smeral mine has been designated as a waste dump. It has a free capacity of approximately 180 million cubic meters for earth and rocks with the permissible top of the pile reaching 315 meters above the sea level.

Prior to intensification, the excavations of overburden and interlaying strata will not exceed 17-18.5 million cubic meters per year, while the maximum annual coal output will be approximately 6 million tons.

The parameters of working faces in overburden--the height of cut 20 meters and the gradient 40-65 degrees--are affected mainly by the mechanical properties of soil, hydrological conditions in the overlaying strata and geometric parameters of giant machines. The same is true of the working faces in the waste dumps (15 meters) in which some additional important factors, such as quality of underlaying strata, gradient, hydrological conditions of the underlaying strata and so on must be taken into account.

It is clear from the above data that the rather complex conditions in the overlaying strata and waste dump sites will make it impossible to make use of the highest geometric parameters of excavators and stowing machines.

Technology of Deposit's Exploitation

The location of the deposits and techtonics in the Vrsany panel are relatively favorable. For this reason, the potential use of two basic technological equipment modes was explored:

- giant machines with standard-gauge transportation by rail;
- giant machines with long-distance conveyor belts.

Despite certain advantages and usability under the given conditions, the idea of transportation by rail was abandoned because of the general transition to conveyor-belt transportation by the brown coal mines of the North Bohemian Brown Coal District and because of the relative obsolescence and unavailability of equipment whose service life is coming to an end and whose production is being discontinued.

For opening of the mine and preliminary work on overburden, a power shovel of the E 302 type was used with a shovel capacity of 3 cubic meters and standard-gauge electrified transportation. Material excavated from the overlaying strata was deposited at the Velebudice waste dump by spreaders from the Sverma mine to whose trackage the Vrsany mine was connected.

For the removal of overlaying strata and exploitation of the deposit, it was proposed to use technological units of the TC 2 and TC 0 series with long-distance transportation by conveyor belts 1,800 and 1,200 millimeters wide. Overburden will be excavated by two TC 2s consisting of two-wheel excavators of the KU 800 type, long-distance transportation with conveyor belts 1,800 millimeters wide and two spreaders of the ZP 6600 type.

Coal will be mined by three-wheel excavators of the KU 300 type, transported over a long distance by conveyor belts 1,200 millimeters wide, crushed to 0-40 millimeters grains and loaded through the new hopper to the railroad cars on the trackage of the Smeral plant destined for the Pocerady power plant or other power plants outside the district.

In view of the complex geological conditions and location of the coal seam, it is anticipated that overburden, interlaying strata and coal will have to be alternatively mined (that is, operation of all excavators in the mixed working faces).

The distribution of extracted material and loading it on the overburden or coal belt conveyors respectively is made possible by the so-called distribution station located at the exit from the mine.

The distribution station consists of five so-called shiftable heads (vysuvne hlavy) (2 x 1,800 millimeters, 3 x 1,200 millimeters).

Essentially it is a travelling loop on the belt conveyor which pushes the dumping drum into the predetermined positions.

In the Vrsany mine, there are four positions with 16 and 10.5 meter spacings which correspond to two overburden- and two coal-carrying lines.

The complex will be controlled in a modern manner by dispatching the most varied types and modern equipment, including computers, equipped with links. There are plans for using automated control systems (ASR) in the future.

Stages of Development

The development of the mine was divided into two projects with specified stages of individual construction projects to be completed during the 1979-1985 period.

The first project was divided into preliminary work and two stages of construction to be completed during the 1977-1983 period.

The preliminary work was based on the opening of the mine with small machines and included construction of facilities necessary for the transition to the mining operations to be carried out by giant machines. During the preparatory period, an assembly shop for giant machines was set up and also the principal source of energy--the Lisnice transformation station--for mining operations was constructed.

The first state included the assembly of the first TC 2/11 technological unit and KU 300 S/16 excavator with transportation in the mine by belt conveyors 1,800 millimeters wide. The TC 2 was put into operation in 1981.

The second stage includes the assembly of the second TC 2/14 technological unit and putting into operation of the first coal transportation line 1,200 millimeters wide with a coal-crushing station and provisional coal loading in 1982.

The second project is divided into part B, mine section, and part A, surface plant, in accordance with FMTIR [Federal Ministry of Technological and Investment Development] Decree No 2 of 21 January 1977. The second project B is to be completed in two stages.

The first stage of the second project includes assembly of the second KU 300 S/38 excavator with the second coal-carrying line with a coal crusher, a storage site for crushed coal and a bin for loading the railroad cars. According to the plan, all these facilities are to be put into operation in 1984.

The second stage is to be completed in 1985 by the development of the mine and includes the introduction of the third KU 300 S/42 excavator with belt conveyors and the installation of the third conveyor stowing line with belts 1,800 millimeters wide on the dump site. During each stage, drainage barriers will be built around the mine ahead of the advancing work face.

The second part A includes the construction of the surface plant during the 1983-1986 period.

Past progress in construction does not conform to the original intentions because the first TC 2/11 was put into operation not in April 1980, but only in February 1981. This situation has been unfavorably reflected in planned output and particularly in overburden removal. Nevertheless, coal mining in 1982 should start in accordance with the original intentions.

Surface Construction

The opening of the mine requires construction of assembly centers, maintenance shops, warehouses, social, administrative, operations and auxiliary buildings, power-generating, water-conserving and transportation facilities.

Two centers have been built for assembly of giant machines with the total area of 6.6 hectares. The Vrsany combined assembly center was built close to the mine for assembly of KU 800 and KU 300 wheel excavators and a shop for assembly of ZP 6600 stowing machines was built near the dump site in the Smeral mine.

The advantageous conditions of communications and of location of the Vrsany combined assembly center were used for storing of the building contractor's equipment, and the area near the assembly center was made available to the supplier of technology.

The maintenance shop for the extensive technological equipment of the mine, necessary warehouses, auxiliary, social and administrative buildings are part of the surface plant which is located approximately 2 km from the entrance to the Vrsany mine. The project of a new surface plant makes maximum use of the existing buildings of the Smeral surface plant although some of them will have to be demolished. New construction will form an addition to the northern part of the present built-up area. It thus represents an expansion and reconstruction of the plant built toward

the end of the 1950's. It will serve the Smeral mine until 1986 as originally planned, but simultaneously also the Vrsany mine and also the Bylany mine in the near future. In this way, a combined maintenance, social and administrative center will be established for mining operations in the Slatinice-Bylany area.

The original project for the present plant did not anticipate its future expansion for new mines and was based on the needs of the Slatinice mine which was being developed at that time. Consequently, the roads were built, the site of the substation with the input and distributing lines was chosen and the buildings on the surface were constructed in accordance with the original project. In addition, the Lucni brook will have to be relocated beyond the boundary of the expanded plant.

This situation considerably interferes with the principles of building a new plant and complicates the situation for three communities--Smeral, Vrsany and Bylany.

The surface plant is situated on territory without coal seams and the area earmarked for the plant expansion is not agriculturally cultivated.

The built-up surface area for the Vrsany and Bylany mines is 43,300 square meters, and the total area of the surface plant is 26.2 hectares.

Environmental Problems and Necessary Additional Investments

The exploitation of the Vrsany panel is in harmony with the territorial plan for the North Bohemian Brown Coal District, forecast of long-term development made by the general directorate of the SHD [North Bohemian Brown Coal Mines] concern and estimates made by OVUP [expansion unknown] of the ONV [okres national committee] at Most.

The most unfavorable factor in the development of the mine and exploitation of the deposit is the considerable encroachment upon a territory with largely agricultural land.

In view of the fact that the coal in this part of the brown coal district has not been industrially extracted so far, there is no danger of spontaneous combustion and fires. Thus, it can be assumed that the air will not be seriously polluted by industrial fallout.

The communities of Bylany and Vrsany, situated near or directly in the panel of the mine, were relocated during the 1977-1979 period. The communities of Male and Vysoke Brezno are situated approximately 500 meters south of the demarcation line of the mine and may be affected only by the activity in connection with the mold and dusty earth dump. There are no other communities nearby.

The waste dump outside the mine, located in the Smeral mine which is about to be depleted and closed down, is closest to the community of Most. Even in this case, however, the sanitary zone has not been disrupted.

The surface plant is linked up to the Smeral plant and is being built on the devastated territory. It is separated from the immediate neighborhood by the Smeral plant and embankment of the railroad line to the Smeral mine which leads to the Velebudice dump site.

The implementation of these plans necessitated some additional related investments, among which the most important were:

- relocation of the communities of Vrsany and Bylany;
- relocation of the Lucni brook in the area of the plant;
- relocation of the Komorany-Chomutov hot-water pipe, carried out in two stages;
- relocation and adjustments on Highway III/2536.

Future Prospects

The further development of the mine after the year 2000 is possible, without interruption of operations, in the northern direction approximately up to the Holesice-Trebusice-Horany line with the estimated deposits of approximately 180 million tons of brown coal for industrial purposes, and in the eastern direction up to the pillar of the Komorany-Horany-Bylany corridor with approximately 45-55 million tons of brown coal.

It is clear from the above that, from the standpoint of brown coal deposits and their location, the neighborhood of the mine offers good prospects for further expansion and intensification of mining operations on the basis of technology already known today.

The problem of dump sites, however, is very difficult. For the development and operation of the Vrsany mine with the presently specified parameters, there is available today only the room in the soon-to-be-depleted Smeral mine which, in view of the necessary protection of work faces and coal hoists approximately until the year 1986, seriously limits a free and undisturbed development of the dump site of the Vrsany mine--and thus the development of the entire mine.

The already exploited space of the Vrsany mine, in which both the eastern and western slopes will have to be kept free--due to the expansion of this mine into the "corridor" after the year 2000 and to the penetration of the Sverma mine into the free space of the western side slope of the Vrsany mine approximately by the year 2000--is not an ideal space for a large-capacity dump site in the foreseeable future.

From the standpoint of territorial planning of such extensive mining operations in a territory with intensive agricultural production and adjacent to the Most metropolitan area, various problems arise which will have to be solved simultaneously with the development of the mine.

Among the most important are the environmental problems, the problem of communications of all kinds, electric energy supply, questions of water supply and conservation, related investment projects, labor force and so on.

Conclusion

The intention to develop the new Vrsany mine in the general area of the Sverma mine which was planned to be exploited only after the year 2000 makes it possible to

start production of brown coal of rather good quality in a relatively short time.

This will make up for the decline in the production of fuels and energy which would otherwise occur due to the depletion of Smeral and Triskolupy mines during the Seventh Five-Year Plan.

The panel and its location make realistic the plans for the intensification of mining operations and further development of the mine into the neighboring free space after the year 2000.

The development of the Vrsany mine meets the basic requirements of securing an adequate fuel supply not only in terms of the present, but also for long-term future needs.

It is imperative, however, to develop the mine continuously and rapidly in accordance with the projects and to master and use new equipment in operations in order not only to attain, but also to surpass the planned production targets.

Fig 1. Mining Situation in Slatinice-Bylany Area of North Bohemian Brown Coal District



Fig 2. Vrsany Mine--Mining and Geological Situation

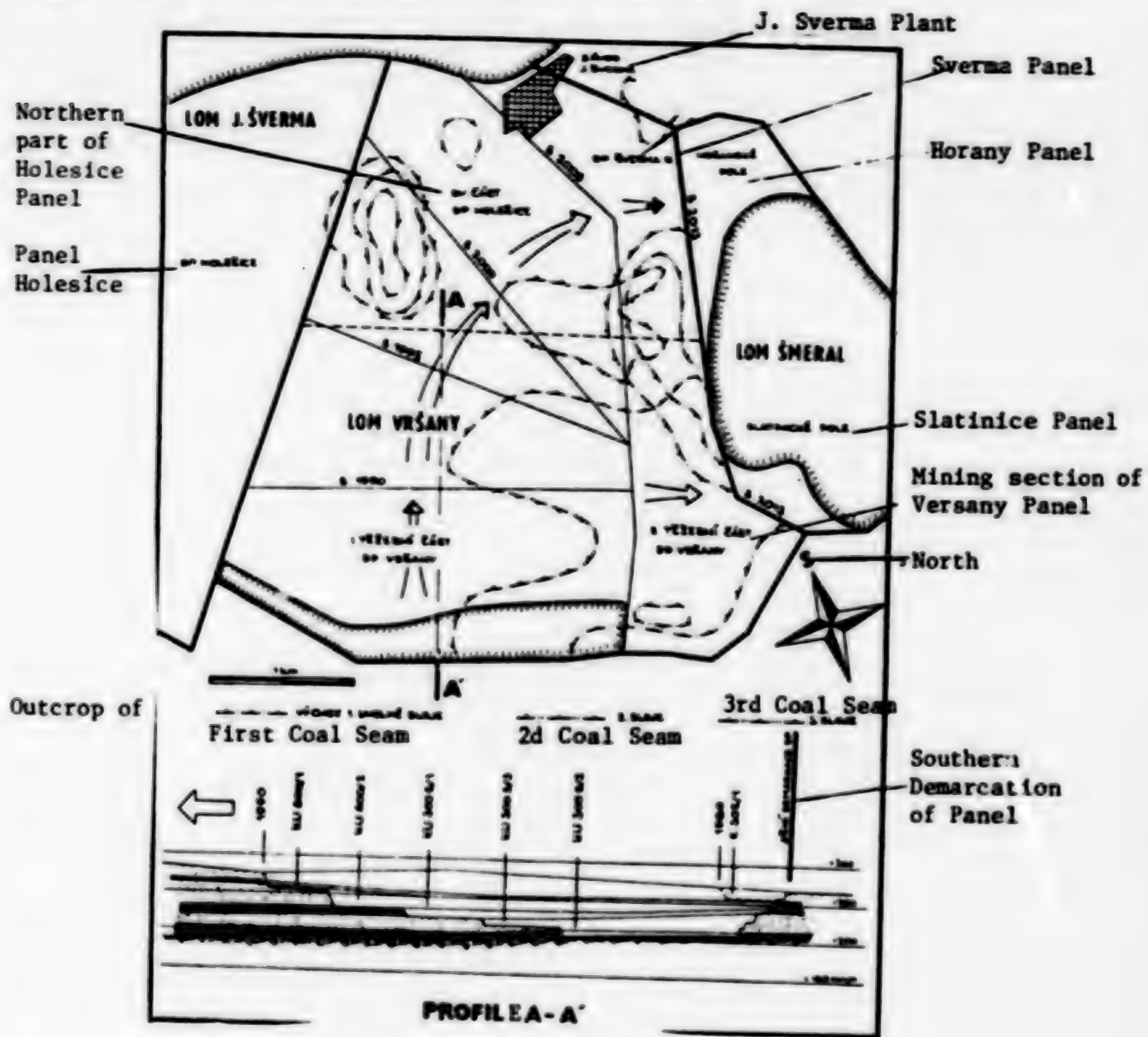


Fig 3. Vrsany Mine—Technological Facilities



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CONSTRUCTION INDUSTRY, TRADE UNION TASKS DISCUSSED

Budapest SZAKSZERVEZETI SZEMLE in Hungarian No 5, 1981 pp 3-12

[Article by Kalman Abraham, minister of construction and urban development: "Joint Tasks of the Construction Industry and the Trade Unions in the Sixth Five-Year Plan"]

[Text] The achievements of the construction industry developed significantly in the Fifth Five-Year Plan, and from year to year its activity has increased the national wealth of our country with the construction of thousands and thousands of buildings and facilities, increased the potential of the economy's producer branches, and improved the living and working conditions of the population. An increasing degree of maintenance work has served to protect the stock of national wealth embodied in buildings and structures.

In respect to production activity under the Fifth Five-Year Plan, the construction industry branch was marked by two, characteristically different, phases. The first phase from 1976 to 1978 was characterized by a vigorous 4 to 4.5 percent production growth. In the second phase from 1979 to 1980, the rate of production growth decelerated, or declined in 1980. The change in the trend corresponds with the change in domestic building demands. The process, as it has developed, is characterized by moderation in the already 30-year-old chronic tension that was caused by the lack of harmony between demand and capacity.

From the quantitative and qualitative viewpoint alike, the satisfaction of construction demands with ability to pay has improved, but we were not able completely to solve the problems of qualitative factors.

As a result of construction work, we built under the Fifth Five-Year Plan about 20 million cubic meters of industrial building space, 445,000 houses, rooms for 75,000 kindergarten children, 4,200 classrooms for general and secondary schools, 220,000 square meters of department store and business space, 7,500 hospital sick beds, and 1,300 kilometers of public roads.

Investments which significantly influence the production structure of the economy entered into production during the plan period, and they are carrying out their tasks as designed. A total of 45 large investments were put into operation, with a total value of 124 billion forints. Among other things, new energy and raw material supply capacities were developed, and with the expansion of food processing plants we gained new export possibilities.

All in all, the construction industry workers fulfilled the basic economic political goals of the Fifth Five-Year Plan.

Tasks of the Construction Industry in the Sixth Five-Year Plan, the Main Goals of Development

The Sixth Five-Year Plan has a special task in the development of the national economy. The main goal of economic policy is to restore and solidify the equilibrium situation of the economy. An epochal change is occurring in the development of the economy, and the conversion from the extensive development phase to the intensive is raising new requirements.

Among the economic political goals, the Sixth Five-Year Plan is emphasizing qualitative requirements. The requirement system of the plan conforms to ensuing economic policy and calls for a smaller extent of growth in national income. The growth rate in domestic consumption will be less than that of the national income, and net accumulation will decline.

The Main Tasks of the Construction Sub-Branch

The main task of the construction industry in the Sixth Five-Year Plan is to satisfy demand with ability to pay in a flexible, economic, good quality and timely manner. The qualitative factors of management will be emphasized instead of quantitative growth, for example, emphasis will be on the improvement of efficiency and the reduction of costs. Of decisive importance is a change in the production structure, which is evident in reducing the investment-construction ratio and in increasing the ratio of maintenance construction.

Indispensable to the implementation of our goals is the better use of existing fixed assets, the rational consumption of means that can be devoted to development, the discovery and exploitation of reserves latent in material and energy savings and in organization. We also wish to promote the realization of our plans by incentives based on higher achievements and quality wage payments. It is only in this way that we can achieve a more dynamic rise of work productivity in production.

In accordance with the planned development of the national income and domestic consumption, as much may be devoted to investments under the Sixth Five-Year Plan as in the previous five-year plan period. On the basis of demand with ability to pay in harmony with the plan, we are counting on a 11 to 14 percent growth in the national construction industry.

The construction requirement for investments is growing moderately, by about 4 percent, and the annual rate--following a small decline--will exceed the average in the second half of the plan period. The investment construction structure is being transformed, and the construction tasks of large investments are declining. The concentration of investments is increasing and the area points of main effort are being shifted. The overall housing construction task is smaller than what was realized in the Fifth Five-Year Plan period. As a consequence of demographic changes, there will be need for fewer nursery and kindergarten classrooms, but more school classrooms.

Despite the narrower investment possibilities, maintenance construction will increase dynamically by about 16 percent, and the area distribution will change. In accordance with economic-political thinking, the maintenance and construction demand for residential buildings and for health, social and educational facilities will be given priority. The growth of this demand within national building and fitting jobs will justify an increase of 1 to 1.5 percent in the ratio of maintenance construction. Capacity development is being built on the existing production level and on the conversion of capacity based on average technical preparedness.

According to plans, the construction industry consumption service development will surpass the maintenance construction average in the Sixth Five-Year Plan period. The population and housing maintenance service is a special task of the organizations concerned and affords the possibility of satisfying social demand.

A higher-level carrying out of the construction industry services is also promoted by the further development of small scale production and auxiliary activities and their organized inclusion in work.

The tasks of the construction industry will be altered radically in the new phase of the economy's development, and despite the moderate rate of development they will be more complex and difficult. This will require a stricter requirement system, which will call for intellectual and physical exertion by all members of the construction community.

Direction of Production Development

In the Sixth Five-Year Plan, the construction tasks and performance capability of the construction industry organizations must be in harmony at the national level. The management keeps its eyes on the structural, temporal and spatial congruence of construction tasks and implementation capacities, and the economic fulfillment of demands.

Economic planning work shows that the tensions between demands and the area placement of capacities will not be completely eliminated. The center of gravity for megye construction demands will be shifted. The ratio of Budapest construction tasks is increasing significantly, and the economic plan has labelled their execution as a special program.

The construction industry organizations are faced with fulfilling construction tasks which vary by area and composition. The fluctuation of demands and area dispersion places increased entrepreneurial readiness and greater flexibility in the center of development.

We must modify the operational areas of the enterprises, the organizational, internal management and incentive systems in such a way that they will be able to adjust to demand with a changing composition. Moreover, we must improve the cooperation of the construction industry organizations, broadening the relational system which has already developed (construction initiator, planner, subcontractor, supplier, and so forth). Only those enterprises are capable of managing successfully which can meet a new situation.

Tasks Relating to Living Standard Policy

a) Housing Construction

The responsibility of the builders is particularly great in the implementation of the living standard goals of the Sixth Five-Year Plan. When the development of the economy, for external and internal causes, does not make the accustomed rate of increase in real wages possible, the improvement of living conditions becomes a primary political task. The delivery of new houses on time and in good quality, the complex construction of residential sites, and the rapid and payable construction industry service may improve public opinion, but there may also be negative factors.

Under the Sixth Five-Year Plan, a total of 370,000 to 390,000 new houses may be built nationally, of which 115,000 to 120,000 will be built by the state. The housing construction goal in Budapest is 90,000 units. The number of houses built with modern technology will be 208,000 units, the same number as under the Fifth Five-Year Plan period. But the ratio in the whole of housing construction is greater (53 percent).

The reduction of project-type, multi-level housing construction tasks makes it possible and the use of developed modern manufacturing capacities makes it necessary that the organized construction industry (EVM [Ministry of Construction and Urban Development] enterprises and construction industry cooperatives) should undertake also to implement single partnership houses, family houses, detached row houses, and semi-fabricated houses that are being privately built. According to the planning goal, two-thirds of the 15,000 group family houses will be built by panel technology. It is the task of the implementers to discover these demands, include them in their undertakings, and see that they are carried out.

In conformity with demands, about 65 percent of the new houses are being built in the capital city and in other cities and urbanizing sites. To the extent possible, urban mass-housing construction is being realized on interconnecting areas together with the necessary infrastructure. We are appropriately developing the public utilities of the new residential quarters, energy supply and transportation connections, and the institutional network (general schools, nurseries, businesses, and so forth) serving the basic needs of the population. We are endeavoring to see that the level of facilities for the new and the existing old city districts resemble one another.

In a period of more moderate housing construction goals, a perceptible reduction in the number of rightful complaints regarding the quality of new houses, and the approximation of the level and usability of housing projects and houses to those of industrially developed countries is a task of equal rank with that of the quantitative indexes.

The state of the housing supply can be improved with the combined effort of the state and the population. We are stimulating private housing construction through manifold measures and the improvement of the material-technical conditions of construction.

In order to promote private housing construction, we are improving the supply of sites, making them more organized, and increasing the state offer of these sites.

We are stimulating more economic use of areas, and the extension of more urban group and individual housing construction forms. We are expanding the selection of technical plans, improving the modern material and fitting supply for housing construction, and the possibility for borrowing building machinery.

b) The Housing Supply

At the beginning of the Sixth Five-Year Plan, the Council of Ministers put new statutory provisions into effect for the development of a housing management system. The main goal of the measures is to promote the mobility of the population, stimulate the exchange of houses and the transfer of living space that exceeds requirements. This goal is served by multiple compensation for larger houses that are transferred, the construction of houses for pensioners with regular health care provisions and other services for the elderly.

The new measures also improve the chances of the young for acquiring a house. By terraced house arrangements, two or more housing demands can be satisfied with one house. Bachelor flats and houses with rooms for rent are being built in which young people can make ready for their final housing acquisition. We have created more favorable financial and repayment conditions for garret-space and additional stories. Young people are given preference in the allocation of houses without indoor toilet amenities if they are willing to undertake the installment of facilities. For the building of modern, group and family housing the future, socio-political subsidies will be granted for children. In certain programs, there exists opportunity for short-term credit to pay for the cash down payment. Easements may be granted for the repayment of the loan in the first 5 years.

c) House Maintenance

As a result of the new constructions targeted for the Sixth Five-Year Plan period and the modernization and renovation of houses, the living conditions will improve for about one and one-half million citizens.

In the Sixth Five-Year Plan period we are planning the renovation of about 90,000 to 100,000 state-owned, urban houses, and the modernization of about 40,000 to 50,000 houses without indoor toilets. As a result, the number of families per 100 houses will decline from 108 to 103, and the number of people per 100 rooms will decline from 150 to 140; the renovation lag will decline, and housing conditions will continue to improve.

We regard the systematic protection of the renovation of the existing stock of houses in the Sixth Five-Year Plan as a task equally important to new housing construction. The development of housing maintenance must contribute more consistently than heretofore to meeting the social needs of the housing supply.

The increasing renovation tasks make it justified to discover economy and cost-saving measures for renovation and modernization jobs, and also planned cost management in order that as much work as possible will be performed with the money available.

At the council organizations which handle real estate property, we wish to improve the technical preparation of renovation jobs, the quality of design plans, and the planned and organized conduct of implementation.

The construction industry capacity for the maintenance of houses may be created with selective development and regrouping as necessary. The greatest extent of regrouping is needed at construction industry council enterprises and construction industry cooperatives.

It is primarily the enterprises belonging under the supervision of the EVM that are preparing themselves for the renovation of houses built with factory technology, inasmuch as they differ substantially from the buildings made with other technologies. Continuous maintenance work on factory built houses is performed by enterprises dealing with real estate.

In the maintenance of houses owned by the state and private individuals, care must be given not only to large improvements but also to the satisfaction of maintenance needs which will assure continuous use of the house. Construction industry improvement services are carried out by the interested state enterprises, by the construction industry and housing cooperatives, and by the real estate organizations and artisans. We make it possible on a broad scale for the population to participate in organized work performance after working hours.

We are carrying out the tasks of building new homes and maintenance in accordance with technical conditions. With good cooperation among the investors, the planners and the implementers, we are promoting economic cost management and giving preference to solutions that accompany the elimination of economically built although fewer houses.

In maintenance, we bear in mind that the housing supply should contribute more consistently to meeting social needs. We are gradually carrying out the renovation of outmoded houses without indoor toilets and installing toilet facilities. We are devoting 47 billion forints for the renovation, maintenance and modernization of houses that are being handled by the local councils. This is more than we spent under the previous two five-year plans for the improvement of state-owned housing.

It is becoming necessary that we begin the development of construction industry organizations for carrying out the increasing renovation and modernization tasks in the capital city. The EVM has already carried out, in part, the measures related thereto, or in the course of further work it will create the conditions for fulfilling the goals.

In the future we will support the renovation of individual owned housing with long-term loans and with the improvement of the construction material supply. In this area we shall also expand service capacities, material and fitting supplies, and the loan of small machinery and means.

The use value of houses is influenced to an important extent by the nonproducer infrastructure. Therefore, the planned implementation of child, health, education and commercial facilities is closely related to the building of houses. In the Sixth Five-Year Plan period we will build 5,500 to 6,000 school rooms, and nursery and kindergarten quarters for 25,000 and 9,600 nursery pupils. In order to build the targeted 30,000 to 35,000 kindergarten quarters, it will be necessary to transform buildings that are in existence but were designed for other purposes.

In order to improve child, health and social facilities, we are planning to establish 6,500 to 7,000 hospital beds--chiefly with the expansion of existing institutions--, 5,500 to 6,000 quarters in social homes and 2,000 to 2,500 quarters for the placement of mentally retarded children.

All of the new schools and nurseries and 80 percent of the kindergartens will be built with new technologies. The planned technologies will take up about 80 percent of the light structural CLASP manufacturing capacity and 60 to 90 percent of the various ferro-concrete iron structures.

The limits on financial sources call for simplified and cost-saving solutions. The practical implementation will require continuously coordinated cooperation from both the investors and the affected implementers.

Manpower and Wage Management, Social Facilities

Sub-Branch Conditions and Tasks of Efficient Employment

More efficient construction work and the promotion of rational management has become a strained economic compulsion on the threshold of the Sixth Five-Year Plan, but at the same time it directly serves enterprise and individual interests, and it also signifies the fullest interest protection of the workers. Rational employment of the available manpower is of great importance also in increasing the efficiency of building activity.

On the basis of the MSZMP Central Committee 12 October 1978 resolution, the 12th Party Congress resolutions and the conditions system of the Sixth Five-Year Plan, we must carry out our sub-branch tasks that are most closely related to the living and working conditions of the workers. In the use of production factors, whatever is affirmed by our trade unions and the SZOT [National Congress of Trade Unions] congress--primarily in regard to the conditions for living standard policy goals and labor affairs activity--must take place as quality change.

The implementing construction industry fulfilled its tasks under the Fourth Five-Year Plan with an increase of 33,000 workers, and in the Fifth Five-Year Plan period with a reduction of 21,000 workers.

The general manpower shortage which existed earlier has been substantially eased, but the tensions primarily in the capital city and its environs and in certain trades have not declined. The trade knowledge of the workers and their production technology has continuously increased. One-half of the construction workers are skilled workers, one-third are semi-skilled. But at a significant share of the enterprises, the trade structure is not in harmony with the modified production tasks and with the technical-technological requirements, which together with the insufficient work and plant organization activity restrains the vigorous improvement of productivity.

Under the Sixth Five-Year Plan the declining production tasks will have to be fulfilled with about 20,000 fewer workers. The enterprises will be able to fulfill the goals in the economic plan and to conduct more profitable activity by means of more modestly extensive but intensive technical development and for the most part with the radical discovery of sources for increased productivity. To do this, we will have to realize one-third of the targeted manpower reduction in the medium-term plan in 1981.

Our construction organizations must achieve further improvement in building-fitting organization, in the results of cooperation relations, in the reduction of lost

time that is still significant, and in the improvement of work discipline. In this way we desire to save the work of 10,000 to 12,000 workers according to our plans. To do all this, enterprises must, as an unpostponable task, increase the strictness of their manpower and wage management and improve efficiency.

As a consequence of the changes in construction industry tasks, the manpower demand will increase in several areas (for example, in Budapest and environs, in Csongrad megye, and in certain districts in Transdanubia). As a consequence of the increase in maintenance and renovation jobs, particularly in the case of reconstruction works which require a greater amount of live labor, specific manpower needs will also increase in Budapest.

The solution to the manpower shortage in the capital city and in certain trades and the adjustment to changes in the production structure are possible by rational manpower regrouping in the enterprises, the development of rational employment ratios, and planned work distribution among the enterprises. The development of flexibility may be promoted by the redirection of manpower, the area widening of undertakings by implementers, the use of new work-right possibilities (for example, secondary occupation contracts signed with their own workers and incentive wage policy measures). The economic associations which are being formed in more and more megyes also provide an appropriate framework for labor affairs cooperation among the enterprises. In addition, we must also strengthen the cooperation with the megye (capital city) council organs.

Because of the significant changes in construction demands, an appropriate transformation of the trade structure and the organization of enterprise retaining the further training have become a vital question.

A better use of intellectual capacities and a more fundamental preparation of investments is promoted by a more purposeful work distribution among the implementers and the technical planners. One means of doing this is a circumspect carrying out of obligatory manpower reduction.

An urgent task is the more fundamental enterprise planning of employable manpower; a broader application of modern work plans that adjust to technological features; rationalization of work processes and work place activities; and the expansion of the responsibility and authority of production leaders.

The organization of the supplement to the 4.5 percent decline in the work-time base that accompanied the general introduction of the five-day work week will be a special sub-branch task beginning in 1982. The construction organizations must achieve the production and management targets of the Sixth Five-Year Plan through the realization of productivity requirements. To this area belong the modernization of the enterprise organization system and the gradual improvement in the level of skilled and expert training.

In wage management, we regard as the basic principles: distribution according to work, the differentiation of earnings, and a firmer realization of an improvement in work discipline. One of the most effective means of an increase in productivity is the expansion of performance requirements based on modern work norms, the extension of quality wage payments, wage forms which complexly stimulate savings, and chiefly the development of unified sum work and wage remittances.

We are striving to achieve two goals in sub-branch guidance work designed to develop wage systems: an increase in the incentive strength of applied wage forms and the development of incentive methods that can be understood by the workers and require the least administration. All this can be well linked with the necessary development of the internal incentive system of the enterprises. It is a basic requirement, however, that the producer organizations shall differentiate performance wages more firmly than heretofore.

For the attainment of a wage development of 23 percent (annual average of 4.5 percent) planned as a minimal goal in the implementation construction industry in the Sixth Five-Year Plan period, all this is the basis for the protection of the sub-branch and its indispensable condition. In addition, the fulfillment of the complex capital city housing construction tasks and the increasing reconstruction demands of public institutions make it necessary to have incentive wage preferences and the payment of an increased separate subsistence allowance.

Improvement of Social Facilities

The following are perhaps constant categories stemming from the production characteristics of the construction industry: changing work place, a nomad character, and constant commuting. Because of the difficult and characteristic work-place and work-order circumstances, we regard the development of work and health protection for the workers and their social facilities as of equal importance with the improvement of manpower and wage management.

In certain areas of social allowances we have managed to achieve considerable advances in the past 5 years. Organized plant cafeteria facilities--basic condition for work performance in the construction industry--have become normative requirements. Construction industry workers consume annually 33 million to 34 million meal[s] rations in subsidized plant cafeterias. Maintenance of the good level we have attained in this area is an important social requirement.

Further improvements in the living conditions of the 80,000 to 90,000 construction workers in workmen's hostels is a special task of ours. In the Fifth Five-Year Plan period, the hostel network of the sub-branch grew by 6,500 living quarters at the cost of 1 billion forints. Under the Sixth Five-Year Plan we will have to improve hostel conditions primarily in Budapest. This is also important for the fulfillment of the special construction tasks in the capital city.

The commuting conditions of the workers also improved in the Fifth Five-Year Plan period. Our enterprises have improved their own group and bus pools for workers' transportation, and have replaced vehicles which are not suitable for personnel transportation. This is a positive result, but the cost of daily transportation is very high. A total of 1.5 billion forints is devoted to this purpose every year. The expense can be moderated by cooperation among the enterprises operating in the district, and by better transport coordination. It has been our experience that more and more enterprises are recognizing these possibilities and taking concrete measures to this end.

Much remains to be done for the improvement of social conditions directly in the work place. There are many work places where dressing rooms, washrooms, and eating facilities are still unknown. We must make the elimination of these shortcomings a major development task in the coming years.

Assurance of the personal and objective conditions of work protection, the continuous development of working conditions, and the correction of working conditions that are harmful to health have become an organized part of annual and medium-term social plans. Increased workers security is a first-rate moral and responsible economic obligation of every leader in a producer cooperative and of the direct production manager.

Putting an end to unfavorable manpower circulation processes in a sub-branch is the condition for the fulfillment of further obligations. Therefore, of exceptional importance is the continuous development of social facilities for construction workers and the constant improvement of social conditions for work undertaking. Their realization depends on how--with emphasis on the special role of the human factors--we can improve production and management conditions and efficiency in accordance with the requirements of the economic plan.

Experiences and Major Tasks in the Cooperation of Leading Organs of Sub-Branch Management and Trade Unions

The Fifth Five-Year Plan results of the construction industry came about with the hard, self-sacrificing labor of the construction industry workers. All in all, an indispensable role was played in the attainment of the positive results by the guidance and control activity of EFEDOSZ [Trade Union of the Workers of the Construction, Woodworking and Building Material Industries] and by the mobilizing, initiating, organizing, educational and interest protection work of the area and work-place trade unions. The sub-branch management always carries out its major labor, socio-political advisory, regulatory and control functions in close cooperation with EFEDOSZ and HVDSZ, which also forms the foundation of our joint work and tasks. The medium-term concepts which we have formed jointly are clear, and are in the end realized in the medium-term management programs of the enterprises.

The ministry and the leadership of the trade unions have been regularly evaluating every year since 1967--at least in two combined sessions--the experiences of the cooperation and have determined the joint tasks for fulfilling sub-branch goals, and the joint tasks for improving the living and working conditions of the workers. For the solution of problems stemming from the complex activities of construction work and from working conditions, we always strive as equal partners, in lively realistic debate and on the basis of interest identity.

In searching for solutions--and we believe this is the correct principle--we generally do not see the fault in the working man but in shortcomings involving the creation of conditions and a requirement system of continuous work performance. If we desire more organized work, quality improvement, conscientious and economic management, then progress is the joint task of the state and trade union.

Another important basic principle of ours is that social allowances, which are closely linked to work performance, and concern for work protection conditions which secure the health and life of the worker cannot be a function of profitability points of view.

Every year we conduct discussions on eight to ten special subjects with the leading bodies of the trade unions which are closely linked with the interest protection of the workers.

The secretary of the EFEDOSZ is a standing invitee to ministerial conferences; in the various work committees the representation of the two organs is mutual and regular; and a continuous and open work relationship has developed between the ministerial departments and the divisions of the trade union. Commissioned and responsible leaders attend to the continuous coordination of our work and to the harmonizing of measures.

In our guiding sub-branch work, cooperation is characterized by a program approach and by agreement. Accordingly, the great majority of the sub-branch and supervisory measures were passed in agreement with the trade union; differences of view in principle or difference of opinion in regard to methods of practical solution did not develop, and only in a few instances did it occur that supervision measures were not prearranged, but in the course of execution mutual understanding was arrived at.

The resolutions of our trade unions and of the SZOT congress, the detailed coordination of the 1981 annual and the Sixth Five-Year planning goals, and the preparatory-evaluatory work related thereto determine the bases of the joint guidance activity for the 1981 and the medium-term plan period.

Among such joint tasks we must recognize the most important factors for fulfilling the increasing efficiency requirements. We must work together in preparing the general introduction of the five-day work week with its work-time reduction. Satisfaction of the manpower demands for the capital city construction tasks requires a joint effort. We must also jointly settle the situation of deficit enterprises and fund shortages. Joint guidance tasks are, for example, the following: stronger realization of the sub-branch characteristics of wage management and wage payments; development of the internal incentive system of the enterprises; realization of the proper sequence of work protection and socio-political tasks and the development of enterprise organizations.

For the drafting of plan goals and undertaking programs of the producer organizations we have published joint guidelines and guide books.

We developed, in agreement with the central leaderships concepts of the sub-branch, the sub-branch guidelines and guide books for the collective contracts of the Sixth Five-Year Plan period for the introduction of the five-day work week from eager sources.

With joint announcements and continuous work we are striving for the development of the socialist work competition movement and the innovators' movement, for the improved and systematic control of work protection activity, and for the development of the workers' educational and sports movements.

The joint tasks, guidance, and organization of economic construction work stand at the center of our tasks. Its success will depend to a large degree on the further development of socialist democracy, the development of initiative action, a demo-

cratic atmosphere, and the more substantive operation of democratic forums. Systematic cooperation with the trade unions, basic discussion, and our guidance work are primarily necessary for this kind of control. The principles and basic methods of our relationship system have succeeded, and we do not need to change but to improve them.

In our 1981 work plans we are devoting particular attention to the successful solution of tasks deriving from the altered situation of the construction industry and the substantially modified operation conditions, and to the creation of conditions promoting their application. It is our conviction that the workers of the sub-branch will realize our goals through the more organized work of workers and economic and trade union leaders and through unity. We are counting on the help of every official of EFEDOSZ and HVDSZ and on their mobilization and educational work.

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ECONOMIC SITUATION CHARACTERIZED AS 'SLUMPFLATION'

Warsaw ZYCIE GOSPODARCZE in Polish No 47, 22 Nov 81 p 9

[Article by Grzegorz W. Kolodko: "Slumpflation—Polish Style"]

[Text] Disruption and chaos are increasingly the hallmarks of the present situation in the marketplace. Under conditions marked by the uncontrolled redistribution of incomes there has been a simultaneous decline in consumption. The value of our currency is being debased. This drastic state of affairs is an outward manifestation of the slumpflation which has lately been a characteristic feature of our economy.

Slumpflation Defined

Addressing this issue in the most general terms, slumpflation boils down to the simultaneous occurrence of economic recession and inflation. Theoretically speaking, inflationary processes can occur in three kinds of situations, i.e., in a large-scale capital replacement environment (the sensu stricto definition of inflation), in a small-scale capital replacement environment (stagflation), and in a restricted capital replacement environment (slumpflation).

The macroeconomic processes that have been under way in Poland in recent years prove to us that slumpflation can also occur in a socialist economy. However, in different social and political systems the causes, mechanisms, and effects of this process differ from one another in fundamentally important ways. It will suffice at least to identify the demand-side (capitalist) and supply-side (socialist) preconditions that give rise to economic recessions.

The two primary attributes of slumpflation are economic recession and inflation. We are therefore able to say that the slumpflation process in Poland got started around the end of 1978 and the beginning of 1979, and there is every indication that the magnitude of this slumpflation is tending to increase.

The causes of this state of affairs have been widely discussed, and for the most part there is a general consensus of opinion on this score. It is worth pointing out, however, that among these causes a role of no small importance is being played--especially during the past year--by factors of a political nature, factors which played a critical role in forcing us to accept a lot of patent economic nonsense. This nonsense consisted of apportioning the consequences of the decline in the national income in such a way that it seemed as if people were talking about allocating the benefits of an increase in the national income.

Slumpflation in Poland--apart from its gigantic scope and its marked acceleration during 1981--has a number of unique features.

The Nature of Inflationary Processes

In my further remarks I will avoid discussing the causes and mechanisms of economic recession, except to take note of the fact that in 1981 all categories of macroeconomic indicators are on the downturn--apart from net agricultural output, and this also includes--for the first time on such a large scale--a reduction in the level of consumption as defined in aggregate terms.

The nature of inflationary processes, their complexity and multifaceted characteristics, inclines certain authors to express doubts as to whether "...the very term 'inflation' might not be an inappropriate definition of what is going on in our country."¹

Depending on its causes, mechanisms, consequences, scope, manifestations, and other criteria, there are at least several dozen types of inflation that have been identified in the professional literature. It is for this reason that the question sometimes arises as to whether this is really inflation or perhaps something entirely different. It would therefore be a good idea to examine the inflationary processes that are now wreaking havoc with our national economy from the perspective of these various distinctions.

1. Inflation is now a worldwide phenomenon, and this is its most important feature. The impact of inflation on our economy as a result of developments in the terms-of-trade area cannot be minimized, but it would also be a mistake to exaggerate the importance of this factor, an excuse which was eagerly embraced by news media during the pre-August period. This is because inflationary processes are in the main not the result of imported inflation, rather they are the result of internal social and economic processes and--in our present situation--political processes. So, what we are dealing with here is internal inflation.

2. As far as the origins of inflation are concerned, we draw a distinction between cost-push and demand-pull inflation. The former is based on rising prices resulting from increased production costs. The latter is the classic inflation of rising prices in the marketplace resulting from an upward "sucking" motion that seeks to reach a level of equilibrium prices, something which happens when demand reaches excessive proportions. At the present time both of these processes are overlapping each other in a very forceful way, and they are mutually reinforcing, among other ways, as a result of the wage-price spiral. However, there is no way to come up with a precise estimate of the extent to which each of these two brands of inflation contribute to the total rate of inflation, which, on the one hand, has to be reduced to the magnitude of the price hikes that are absolutely essential in order to reach some kind of market equilibrium and which, on the other hand, serves as an accurate reflection of the social costs of production.

1. Vide W. Herer and W. Sadowski, "The Inflationary Curve (part 1)--What It Is and How It Works," ZYCIE GOSPODARCZE, 1981, No 32, p 9.

3. As far as the symptoms of inflation are concerned, we draw a distinction between open inflation and suppressed inflation. In the first case the inflationary rise in prices--something which occurs spontaneously--pushes these prices up to the point where supply equals demand. In the second case--owing to a centralized policy dedicated to stabilizing prices at existing levels--a certain percentage of personal incomes is transformed into forced savings in the form of "unwanted" deposits in bank savings accounts, or some of this personal income might also be set aside in the form of cash reserves (so-called hot money).²

The unique nature of inflation in Poland is based on the fact that we are now faced with an interlocking pattern that involves both of these processes, but this is accompanied by a pronounced tendency on the part of suppressed inflation to gain the upper hand. Apart from the aforementioned forced savings, this is manifested in the form of the ever growing system of rationed goods, increasingly longer queues, the presence of a black market, and rampant speculation. It is against this background that money is doing an increasingly poorer job of performing its normal functions. This is because in this kind of environment it has ceased to be regarded as a unit of universal equivalent value and is therefore losing its meaningfulness as a medium of exchange. Suppressed inflation is a characteristic feature of the situation that now prevails in the socialized sector of the marketplace. It is estimated that during the first half of this year retail prices in this sector grew at a rate slightly in excess of 8 percent. On the other hand, in the nonsocialized trade sector--and here we are dealing with a classic type open inflation--this same indicator amounted to approximately 50 percent.

The intertwining character of the open and suppressed inflationary processes also gives rise to certain complications with regard to measuring the scale and intensity of this brand of inflation. In the former case, theoretically speaking, the yardstick used to measure this scale and intensity is the rate of inflation, which is expressed by the indicator reflecting the rise in the aggregate level of consumer goods prices. In the latter case the yardstick is the magnitude of the inflationary gap.³ At the present time, the usefulness of both of these yardsticks taken by themselves is limited, since they cannot be added together. So, the best way to illustrate the scale of inflation is to cite the potential rate of inflation, i.e., the rate of inflation that reflects the absolutely necessary, from the standpoint of bringing prices back to the point where market equilibrium is achieved, level of the rise in retail prices (taking into account the abstract assumption, that, as far as the realities of life in Poland today are concerned, price hikes are not offset by corresponding rises in nominal incomes).

2. For accuracy's sake it should be noted that hot money should also include "a vista" type savings accounts, i.e., demand deposits.

3. For a broader discussion of this subject vide G.W. Kolodko, "The Inflationary Curve and the Inflationary Gap," ZYCIE GOSPODARCZE, No 38, 1981.

At this point it would be a good idea to call attention to still another consequence of inflation in an environment characterized by restricted capital replacement. Namely, insofar as the concept of inflation—as I am trying to define it here—serves as an adequate description of the brutalities of our economic reality, then under these circumstances the concept of the growth rate of real wages and incomes tends to become all the more meaningless. This is because the growth of real wages and incomes tends to become all the more meaningless. This is because the growth of real wages and incomes is possible solely as a result of the level of output of goods for sale in the marketplace, and not as a result of an increase in the supply of money flowing into the marketplace. In the case of a stabilized marketplace this growth rate can be readily determined through a simple comparison of indicators reflecting the growth rate of nominal incomes and the growth rate of retail prices. But since real incomes represent the sum total of consumer goods that can be purchased at a given level of nominal incomes, this indicator will cease to serve any useful purpose under conditions marked by a falloff in the level of consumption. Economists and statisticians must therefore come up with a new definition of a situation in which nominal wages and incomes are growing at a faster rate than the general level of retail prices coupled with a simultaneous decline in real incomes.

Notwithstanding its awkwardness, I will confine myself to defining what is meant by the notion of a nominal rise in real incomes. This phenomenon can occur not only in an environment characterized by slumpflation, but also in a classic inflationary situation insofar as this inflation is suppressed to some degree and followed by the emergence of forced savings.⁴ Let us realize at the same time that this nominal rise in real incomes may be something we have to live with for a long time to come (and even then we will also be able to talk about a genuine rise in real incomes) as a result of the assertion of pent up demand following the stabilization of the marketplace coupled with a major increase in the supply of consumer goods.

4. The distinction that is drawn between civilized inflation and so-called barbarian inflation is also noteworthy. These two kinds of inflation are to a large extent related to the two types of inflation described above, i.e., open inflation and suppressed inflation.

Open inflation, whose greatest evil resides in the uncontrolled and economically unjustified redistribution of incomes, has one good side in that it produces goods that are available in the marketplace. This is because this is a stabilized marketplace. And this in fact is what civilized inflation is all about, since it does not lead to the destruction of the market, and the functioning of the market continues to be governed by the ironclad rules of supply and demand. This sort of situation is typical of the kind of inflation (including slumpflation) that exists in capitalist economies.

4. This observation can be illustrated by taking 1980 as an example. Namely, according to what was said in a Main Statistical Office announcement (TRYBUNA LUDU, No 30, 1981 pp 3, 6), real per capita personal income increased during 1980 by approximately 1 percent (whereas real wages went up by 2.8 percent), which—taking into account a simultaneous decline in production and a negligible 0.6 percent increase in sales of finished goods—gave rise to the phenomenon of forced savings. In essence, then, mean real incomes this year have tended to stagnate, and not increase.

Barbarian inflation--and this is precisely the kind of inflation that we are faced with--destroys the market and relentlessly disrupts the mechanisms that make the market work. Money is constantly chasing after--increasingly to no avail--goods. Things get to the point where it is even more of a bother to spend money than it is to earn it. And, for that matter, the incentives to earn more money grow constantly weaker. Owing to the fact that the national economy functions as a system of integrated control levers, any disruptions that occur in the realm of distribution or allocations is going to carry over into the realm of production where they will fester and reinforce each other.

It might be said that civilized inflation is a kind of "elitist inflation" in the sense that it does not affect everyone equally; civilized inflation is not too much of a burden for economically privileged social and occupational groups. Barbarian inflation is a kind of "egalitarian inflation." Almost everyone--with the exception of a small group of people who in various ways enjoy easier access to certain kinds of goods--are subjected to equally rough, if not cruel treatment by the marketplace (or rather by what passes as a caricature of the marketplace).

5. Economic theory also draws a distinction between, creeping inflation, galloping inflation, and hyperinflation. The criteria governing the classification of these individual types of inflation are determined by the scope of the inflationary processes and their consequences, and in this connection certain differences of opinion have already come to the fore. While some--even though they do not cite any satisfactory theoretical grounds for this--advocate using the level of the inflation rate as a classification criterion, others are searching for the same criterion in the realm of the social and economic consequences of inflation, the magnitude of which is strictly a simple function of the level of the rate of inflation.

We can talk about creeping inflation when the redistributive impacts of this inflation are so negligible that they do not give rise to any major dislocations in distribution and consumption relationships, sever the essential bond between incomes and labor productivity, and thereby diminish the incentive role played by wages.

Galloping inflation does possess all of these characteristics, but hyperinflation makes it utterly impossible to perform normal cost accounting functions, makes efficient management an impossibility by depriving decisionmakers of the objective information they need concerning the availability of individual productive resources, and as a result, fostering the wholesale disruption and disintegration of the economy, and halts economic growth.

In Poland we are now faced with a situation where galloping inflation is being transformed into hyperinflation. This argument is being substantiated by a whole host of developments which are clearly evident in the performance of our economy. Inflationary processes are growing ever stronger. During the period from January to August 1981 labor productivity declined by 13.3 percent in comparison with the same period last year, while during this same period personal cash income went up by as much as 22.9 percent. On the other hand, deliveries of goods to the market increased by a mere 1.4 percent, and this increase is measured in current

prices. The persistence of these trends is bound in a short period of time to bring us to the point where we will have passed over into the stage of open hyperinflation. So, it needs to be said that we are already on the threshold of entering this stage and only a series of radical measures--on both the supply and demand sides of the equation--can avert this danger.

Slumpflation and Economic Reform

So, slumpflation is the name of the disease raging through the increasingly weaker organism of our economy. The spread of this disease can be described as a cumulative process, and at the same time it is distinguished by a number of unique features, among which should be included first and foremost the unprecedented falloff in production and an even larger increase in personal nominal incomes and inflation that is barbarian in nature. Such is the magnitude of the difficulties that have to be overcome in order to put a stop to the destructive processes in our economy.

A great deal of hope is being invested in the radical reform of the system according to which our government and economy are run. And there are sound reasons for entertaining such hopes. But at the same time one should be mindful of the fact that special dangers are raised by theoretically erroneous views which hold that it is possible to carry out an economic reform under conditions marked by intensifying inflationary processes.

Economic reform is not feasible in the face of the mounting inflation that we now have to contend with; the decentralization of the economy--including the decentralization of price setting powers, something which ought to be an indispensable attribute of such a process--could only, and in a short span of time, serve to intensify inflationary processes and thereby thwart the realization of the valid and unquestioned goals of the reform. It is for this reason that the widely supported argument (for reasons having to do with its cheap popularity) advocating the postponement⁵ of retail price changes is tantamount to the invalidation of the fundamental premises of the economic reform.

If this were to happen, we would of course still go ahead with the economic reform, but before long this reform process would take off in an entirely different direction. We would be forced to introduce an extremely centralized wartime economy accompanied by a universal system of rationing, and the next step would be to introduce a new currency and so on and so forth. For such is the inexorable logic of the hyperinflation that still looms before us, the kind of inflation that would set our economy back not just by one decade, but rather by several decades. Insofar as there prevails a general consensus of opinion as to the fact that price reform (including both wholesale and retail prices) is an integral part of a comprehensive process of economic reform, then it needs to be strongly emphasized that it is absolutely necessary that this reform process should be launched with price changes--or, to put it more precisely, price hikes.

5. Vide, inter alia, J. Kaleta, "How To Wipe Out the Inflationary Curve?" KULTURA, No 40, 1981.

Just as it is hard to share the view that we should wait until economic equilibrium has been restored before we embark upon the implementation of economic reform, it is equally inadmissible that we should go to the other extreme and regard economic reform as some kind of panacea for all of our social and economic problems. The implementation of economic reform and the gradual restoration of economic equilibrium--a process which has to be gradual inasmuch as a reformed economy does not automatically bring into play control levers that would guarantee the establishment of equilibrium--is a parallel process which is intertwined with a whole host of contradictions. Unprecedented skills will have to be applied, skills that are by no means confined to the realm of economic theory, in order to resolve these contradictions.

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CRITICAL ANALYSIS OF ECONOMIC REFORM PLAN PUBLISHED

Warsaw ZYCIE GOSPODARCZE in Polish No 47, 22 Nov 81 p 8

[Article by Wojciech Huebner and Dariusz Rosati: "A Plan or a Forecast?"]

[Text] There are barely 2 months left until the start of 1982. Economic management authorities have entered the final phase of their work on the preparation of a draft version of the socioeconomic plan. But this is where similarities with the way things were done in the past come to an end. This time neither the magnitude of the problems associated with the drafting of this plan, the uncertainty as to what the future holds in store for the economy, nor, finally, the overall situation in which the country finds itself have any past counterparts.

The year 1982 looms before us as a big question mark. The year 1982 may bring a further deterioration in our economic situation, but it may also go down in history as a turning point, a year in which the downward slide of the economy was halted and the process of finding solutions to the crisis was begun.

Uncertainty about the future is a prominent feature of all of the pronouncements and documents that are being formulated as part of work on the drafting of next year's plan. This applies in particular to official predictions on the future development of the economy, one of the most noteworthy of which was recently submitted to the Sejm in the form of the draft version of the basic provisions of the national socioeconomic plan for 1982.

We were motivated to speak out on this subject both by the way in which the whole range of issues associated with the process of overcoming the crisis has been treated, as set forth in the draft plan, and also by certain of the draft plan's detailed proposals relative to concrete actions in the realm of economic management. This is because we are tormented by serious doubts as to whether the submitted draft plan lives up to public expectations, sets forth an optimal array of goals and the means for their realization, and, finally, as to whether this draft plan is the fullest possible response to the specific situation in which the Polish economy finds itself at the close of 1981 and the beginning of 1982.

It would seem that any attempt to develop a mental image of what is going to happen to the economy in the immediate future must take as its point of departure two factors which serve as a general description of both the present economic situation and the justifications, based on choices made by society at large, of the thrust of future economic transformations, namely:

--the all-encompassing crisis which is having an impact in all spheres of social life;

--the projected launching of an economic reform starting on 1 January 1982.

This approach is dedicated to testing the validity of all of the assumptions contained in the plan from two basic perspectives, i.e., do they give due consideration to the necessity of curbing process that are leading to the disintegration of our economy and of putting the economy back onto a growth track and are these planning assumptions consistent with and logically interrelated to the goals and assumptions of the economic reform?

It is our opinion that a number of the assertions made in the 1982 draft plan do not fulfill these two basic conditions.

The first general observation that comes to mind in the course of reading this document has to do with the peculiar school of philosophy upon which this document is based. That is to say that this is a document which appears to be much more of a forecast than a plan. We are to be sure mindful of the fact that the times in which planners are now called upon to fulfill their duties are characterized by an extremely high degree of uncertainty. But, nevertheless, it would seem that the proportions according to which the plan's basic assumptions were subdivided into planning- and forecast-oriented sections have been largely twisted around in favor of the latter. Anyone who reads this draft plan gets the impression that this is the analysis of an unbiased observer who is making a record of processes and developments, without making any effort to channel these processes and developments in a direction that is consistent with what he wants to achieve. So, it is worth pointing out that an economic plan must continue to serve as a statement of what planners want to achieve in terms of active efforts dedicated to the "realization" of clearly defined goals. Thus, many of the official pronouncements on the subject of proposed programs for 1982 are in fact devoid of any clearly articulated statement of such goals. The dominant theme of these documents is rather a passive recitation of a scenario of events that in effect boils down to a prediction of future developments, a scenario that, depending on whether or not certain events come to pass, may turn out to be more or less favorable.

The proposed 1982 draft plan is devoid of any ideas geared toward the active shaping of economic processes, the exploitation of favorable developments and the taking of measures to counter unfavorable developments so as to insure, in keeping with the various scenarios, the optimal realization of predetermined goals. As one might assume, these goals have to do with putting a stop to the decline in the national income and initiating processes geared toward economic growth under conditions where provisions have been made for insuring minimum social welfare standards and the full implementation of economic reform.

Unfortunately, in accordance with the assumptions set forth in the plan, the domestic net material product may go up by only 2.2 percent, but it might also drop by a full 8.3 percent, which when figured in absolute terms amounts to a not inconsiderable gap of Zl 180 billion. Things are much the same in the case

of the other targets projected by the plan such as consumption, industrial production, and foreign trade turnover. So, the question arises as to whether Poland is still a country with a centrally planned economy, or have we given up on all forms dedicated to the efficient regulation of economic development?

The foregoing remarks are in no way intended to call into question the legitimacy and usefulness of giving consideration to several different alternatives as to the future course of events, and this in fact is the approach that was taken by the draft plan, in which a distinction is made between a fearful option, a hopeful option, and the most likely option relative to what will happen in the future. But it is one thing to come up with diverse scenarios of future developments over which we have no control and another thing to cultivate the skills that are needed in order to develop practical ways and means dedicated to the realization of certain fundamental goals notwithstanding the fact that circumstances might combine to present a worst case situation. In the meantime, the series of economic policy instruments that have been made public thus far with a view to insuring the realization of accepted assumptions normally fare rather poorly when viewed against the background of the draft plan's overall context and they are worded in a very vague and generalized term.

As a kind of parenthetical comment on the overall "philosophy" of the plan the enormously important question arises as to the relevance of emerging government documents to existing (?) plans for the future economic development of the country over a somewhat longer time span, e.g., through 1985. To what extent are these documents and plans still consistent and to what extent will economic activity in 1982 make it easier (or perhaps harder) to fulfill tasks of a more strategic nature?

Unfortunately, in the course of studying the draft plan one gets the impression that the authors of the plan are totally uninterested in what happens to the economy after 31 December 1982.

Another fundamental doubt which arises has to do with the enormous onesidedness of the proposed draft plan. In the first place, it seems to be highly questionable that one should take the approach that raising the level of coal production (and to some extent the level of field crop production in the agricultural sector) is the sole key to resolving all of our problems. This issue was presented in an almost extreme fashion in the introductory provisions of next year's draft plan, where all options, including first and foremost the degree to which fundamental goals are feasible, rest on a single pillar: coal. So, the national income will go up or down by one-tenth depending on whether miners succeed in producing 155 or 175 million tons, while the value of the shortfall in goods for sale in the marketplace will range between Zl 108 billion and Zl 567 billion.

This line of reasoning is burdened by the errors of the ignominious heritage of the purely allocative model of bureaucratic planning. This is no sign in this approach of any attempts to seek out alternative methods for the realization of proposed goals or of any attempts to go beyond traditional stereotyped approaches to the formulation of annual plans, according to which a coal production record of 155 million tons (per the "fearful" option), which is by no means an insignificant record of performance on a worldwide scale, is inevitably supposed to lead

to an approximately 23 percent decline in the domestic net material product and to an approximately 25 percent decline in the level of industrial output in relation to 1980, a record of performance that would be almost equivalent to the total collapse of the economy.

Regardless of the extent to which the optional approach to the forecasting of what will happen next year might appear to be one of the more useful virtues of the provisions set forth in the 1982 plan, this approach still contributes nothing toward choosing a set of centralized control levers, rather it confines itself to a mere recitation of three options relative to coal production prospects. This is indicative of, among other things, the extreme sensitivity of our economy to the level of coal deliveries.

However, the crux of the matter lies in the fact that the courses of action that are now being laid before us do not spell out precisely what steps should be taken in the event that the level of coal production turns out to be even lower than that set forth under the terms of the "fearful" option. In our opinion the acceptance of such drastic reductions in the level of the national income and industrial output is unacceptable. Some consideration needs to be given to the proposition as to whether or not it is high time to assess the so-called coal problem--which during the past few months has grown to truly monstrous proportions--from an entirely different perspective.

The sooner we realize that when you get right down to it we are one of the world's pre-eminent coal producers, the sooner we will be able to come to grips with the coal problem not only in the realm of coal production, but also, and most importantly, in terms of an efficient and long-range program dedicated to the conservation of this raw material. It is really hard to understand why the present version of the draft plan fails to take into account an altogether more broadly construed series of programs, in addition to the small number of purely ad hoc cuts which it advocates, dedicated to conservation in a large number of areas where such programs could be implemented. The sooner we realize the importance of looking for more efficient ways to exploit our coal resources, the sooner we declare war on the colossal waste which is rampant throughout our power, manufacturing, transportation, and construction industries, and the sooner we realize that it is cheaper to save a ton of coal rather than to produce an extra ton of coal, then the faster we will succeed in breaking out of the present crisis.

A similar onesided approach is a concomitant feature of the way the draft plan addresses the problems of agriculture and food supplies. Here too it seems as though the central planner has become a passive slave of nature, declaring the level of consumption to be a function of weather and harvests, without making any effort to tamper with the structure of the agricultural sector or to fashion a system of specific solutions that would lay a suitable groundwork for reform by establishing the requisite framework of relationships between urban and rural areas. And so, as is similarly the case with coal, this problem area too is dominated by a passive kind of fatalism, by the hope for good harvests, and by making the level of economic activity contingent to an excessive degree on the whims of nature.

Regardless of the extent to which the draft plan as a whole betrays the absence of an aggressive approach to the problems at hand, this passivity is especially evident in the section dealing with foreign trade. It seems as though our enormous indebtedness has all but paralyzed our foreign trade. We are cutting back on imports wherever we can, and, as a result, we are stifling export sales. This is a disastrous policy in the long run. An analysis of the overall chain of interdependent relationships that exist between foreign trade and industry leads us to the conclusion that, given the present situation in which the country finds itself, the promotion of export sales is a critical factor that will help to pull our economy out of its depression. A program of policies geared toward boosting export sales should be without question the focal point of economic policymakers. Such a program should not be confined to the realm of ad hoc measures, rather it should be regarded as a primary objective of the economic reform.

Under circumstances marked by the underutilization of production capacities, and this is precisely the kind of situation with which we are now confronted, all kinds of opportunities exist in our economy for setting into motion special kinds of multiplier mechanisms which make it possible to raise the level of consumption by several times over as a result of a one-time increase in the volume of export sales.*

One of the most important results that should be expected to issue in wake of a radical reform of our economy is its reorientation with regard to developments of an economic and technical nature taking place in the world economy. Our efforts in the realm of economic endeavor must not only be effective in terms of meeting contractual obligations undertaken on the domestic market, rather they must also meet the objective and demanding standards that obtain on world markets. Our economy needs to be reoriented toward the production of goods for sale on the international market, since it is only in this arena that we can put the quality and updateness of our products to a real test. The vast majority of enterprises must become involved as soon as possible in the planning of programs designed to meet the demand of this market. Who knows but that this might prove to be the most troublesome and most painful element of the reform process. But in the long run there is simply no other way to go about solving this problem.

However, the imperative calling for an absolute increase in export sales is not just a product of the objectives of the reform process or of the necessity of offsetting growing import and balance-of-payments requirements. We must focus our attention on export sales as the cheapest way of restructuring the resources at our disposal in this country in a direction that is conducive to meeting our wants as end-use consumers. This is by far a cheaper and faster method than technological realignment, that is, the reordering of production priorities.

* It is easy to calculate that by channeling 1,000 zlotys worth of goods into export markets instead of the domestic market, on the assumption that the import coefficient equals 3 percent and the marginal propensity favoring export sales equals 30 percent, after a certain period of time demand on the domestic market will increase by Zl 6,000. This example clearly points out the absurdity of the charge that the domestic market is being "stripped bare" by export sales, as long as the foreign exchange earned from these export sales is reinvested in an efficient manner.

Finally, and this is of the utmost importance, increased export sales are the best way to advertise the gradual restoration of economic equilibrium in our country, something which will place us in a much stronger bargaining position in negotiations on debt servicing deferments as well as on applications for new loans. Unfortunately, the draft plan has very little to say about plans for boosting export sales. There is no mention in the draft plan of the need to develop a strong system of incentives designed to encourage export sales coupled with a far-reaching program of financial privileges. The draft plan does not take into account any of the new opportunities for expansion that are opening up in certain sectors of the export sales market, e.g., in the areas of construction services, specialist services, and so on. The basic provisions of the draft plan make no provision whatever for increased export sales. The realistic option projects a 0.5 percent decline in export sales, which is tantamount to an 8 percent decline in relation to 1980. This opens the way for the operation of multiplier mechanisms and gives a strong boost toward the persistence of trends that favor economic stagnation.

As far as capital construction ventures are concerned, it is noteworthy that the draft plan calls for aggregate capital spending to be reduced from Zl 460 billion in 1981 to Zl 430 billion in 1982. However, certain questions are also raised by the way in which it is proposed that these resources should be distributed. It seems as though that, after subtracting the volume of capital construction funds that are absolutely essential in order to pay for the maintenance and regeneration of capital stock in areas where this is economically justified, the rest of these capital construction funds will be distributed on an efficiency-pegged competitive basis coupled with a discount rate that might go as high as 15-20 percent. It would then become possible for these funds to be spent by those enterprises which promise to yield the most advantageous economic dividend.

The concluding passages of the draft plan deal with rules and procedures governing the management of the process whereby the planned targets set for the economy are to be realized. The paucity of economic policy instruments proposed by this draft plan, especially when it comes to the setting up of a full-scale system of administrative-legal instruments for running the economy, suggests that the magnitude of the problems now facing the Polish economy exceeded the creative powers of the authors of this document. It is their view that the only way to cope with these problems lies in the return to traditional management methods, e.g., the centralized allocation of basic raw materials and fabricating materials, monopoly control over the purchase and sale of raw materials, the setting of directive-type tasks in the realm of export sales, the centralized control over the capital investment process, and so on.

It is hard to see how this kind of approach will do anything to advance the cause of economic reform, and this is undoubtedly the reason why there has been so much talk lately not so much about reform as about provisional measures designed to patch up the system. However, provisional and temporary solutions have a surprising capacity to become entrenched as permanent solutions. This is why it is necessary to come out with a clear and forthright statement as to the direction in which the Polish economy should be headed. And the 1982 plan should be dedicated to realizing the goals set forth in such a statement.

CURRENCY REFORM PROPOSED AS AID TO ECONOMIC CHANGE

Warsaw ZYCIE GOSPODARCZE in Polish No 46, 15 Nov 81 pp 1, 6

[Article by Kazimierz Ryc: "The New Zloty"]

[Text] The declining industrial output and national income which Poland is now experiencing, a hallmark of our deepening crisis, is primarily and directly attributable to the severe shortage of basic productive resources, including first and foremost raw materials, fabricating materials, products manufactured under the terms of co-production agreements, and fuels. Then again, there is also the shortage of a whole host of capital goods, and this in turn means that there is a shortage of manufacturing capacities in branches which now qualify as bottlenecks in our economy, e.g., coal mining, power production, transportation, and so on. In many sectors of the economy there is also a shortage of manpower coupled with simultaneous overemployment in other sectors.

Defining the Economic Crisis

The next direct cause of this productive resources deficit is:

- the low productivity of fixed and working capital;
- the poor quality of productive resources and consumer goods that is leading to accelerated depreciation and difficulties in export markets;
- disequilibrium in the structure of the economy as a result of imbalanced growth patterns.

The crisis per se began at the moment when this productive resources deficit could no longer be alleviated by deliveries from abroad purchased on credit. This is also the reason behind our most acutely felt hardship--the shortage of foreign exchange which is strangling our economy.

It was possible to overcome the previous economic breakdowns of 1953, 1962, and 1970 by shifting priorities in the realms of capital spending and production. The escalation of tensions threatening to produce a crisis situation was not as severe in those days (with the exception of the 1953 crisis, since at that time the economy was less diversified and more autarchic). Also, the level of the nation's indebtedness was not as serious as it is now. The most recent attempt to shift priorities in 1976--the so-called economic stratagem--was a failure and the crisis emerged with full force in the form of a decline in production and the national income. Without going into the reasons for the failure of the

"stratagem," it can be said that during the phase when the crisis was already severe and growing worse the methods which had been tried out previously, methods which now are referred to generally as "restructuring," were by that time already too little and too late.¹ And so it is now too that it will not be possible to surmount this crisis without making far-reaching changes in the way the economy is run.

Does the Crisis Have To Play Itself Out?

The full-blown crisis, as manifested in the falloff in economic activity, including a decline in production and the national income, is already in its third year and it still has not entered the phase where it could be called a depression, i.e., the curbing of a further decline in economic activity and the leveling off of production at a level lower than that which prevailed prior to the onset of this crisis. Why are things working out this way? Are present political conditions driving us into an ever deeper crisis, a sort of political and economic stranglehold, or has the crisis proper not yet played itself out? I do not want to pass judgment, but I will try to offer some suggestions. Namely, the ultimate playing out of this crisis is based on, among other things, the winnowing out of the least advantageous applications of productive resources. In a market economy this is reflected in the bankruptcy of inefficient producers. These bankruptcies give others a chance for growth and the economy a chance for revival, i.e., a chance for a renewed increase in production and the national income. In the past the counterpart of these "bankruptcies" in a planned economy has always been the cancellation of a multitude of capital investment projects. As a rule, this has sufficed. The resources that were released in this way and transferred to other sectors and branches of the economy helped to bring about a revival of economic activity. In the face of the present crisis similar decisions, made too late and in a haphazard fashion, have not been able to produce the same results. In the long run we are still going to be faced with the problem of winnowing out those applications of productive resources that are least effective.

Actions along these lines are being taken. On the one hand, the Operational Crisis Management Staff is trying to reallocate resources, while, on the other hand, "experts" representing various political forces are enumerating and identifying the kinds of reallocations that ought to be made in order to bring about the desired economic revival. Both sides are trying to find a replacement for what Adam Smith called the "invisible hand" that infallibly identifies which applications of productive resources are least effective. This is because this is not merely a problem of defining the kind of restructuring that is indispensable on a scale that encompassed the economy as a whole, but also of defining the kind of restructuring that must and should take place in each and every enterprise and which of these enterprises and ventures should be discarded, and which should be given a chance.

1. I presented an account of the mechanisms that give rise to and encourage the development of crisis strains for the first time in an article entitled "The Growth of the National Income and Consumption in an Environment of Restricted Capital Spending," published in *EKONOMISTA*, No 3, 1967.

Who is it that will be in a position to identify all of these ineffective applications of productive resources and who is it that will be in a position to accomplish the desired restructuring by administrative means? This can only be accomplished by economic means. This does sound like a harsh judgment, but if an economy that already functions in accordance with the dictates of a command-distributive system has entered into a crisis phase, if not a state of crisis-like strains that could be counteracted by resorting to a reordering of priorities as was the case in 1953, 1962, and 1970, then the first order of business should be to reinstate the priority of economic relationships (economic levers) so that work can proceed on the differentiation and elimination of the least effective applications of productive resources and then look forward to an economic revival and the lending of further impetus to this revival. It may be then and only then that the crisis will be able to play itself out and open up prospects for future growth. It is probably along these lines that one should also interpret the generally accepted view that there is no chance for extricating the economy from this crisis without reforming the system of rules according to which the economy functions.

To be sure, this does not detract from the importance of all of those actions which are being taken to do away with practices that are symptomatic of the wasteful management of the forces of production or also to eradicate the obviously ineffective ways in which these forces of production are being harnessed. This is an essential part of the crisis management campaign, but it is not enough.

Restructuring and Reform

Restructuring and reform are urgently needed in order to resolve the economic crisis. These two policies in favor of change cannot be pursued in isolation from each other. Restructuring without reform will prove to be an exercise in futility, and economic reform, if it does not lead quickly to a restructuring of the economy, i.e., to structural changes that contribute to a boost in the productivity of productive resources, will lead just as quickly to economic collapse in view of persisting shortages of productive resources. Thus, in order to extricate ourselves from this crisis it is of the utmost importance to find answers to the following questions:

--How are we going to go about reordering production priorities (restructuring I) in favor of those sectors which are of critical importance to finding a solution to the crisis, including first and foremost agriculture, extractive industries, and export-oriented industries? The need for such a reordering of priorities is indisputable.

--How are we going to go about implementing an economic reform in the face of a severe shortage of a multitude of productive resources and foreign exchange and, consequently, in the face of a profound disequilibrium in the flow of supplies and in the marketplace? Economic reform is predicated on yet another reordering of priorities (restructuring II) in favor of increasing the productivity of productive resources, also including the productive resources of individual enterprises.

The problem boils down to a lack of equilibrium, since an abundance of cash guarantees demand for all manner of goods, and this brings economic restructuring instruments close to the point of being totally ineffectual. The decline in the value of the zloty has encouraged the spread of barter transactions. So, what we have in this country is a large quantity of different kinds of currency that cannot be readily enumerated. This is due to the lack of a single, commonly accepted unit of equivalent value, and the real or artificial shortfall in output is a trump card in the hands of producers. This output is coming to be regarded as "money" in negotiations with suppliers and co-producers. Nor is there any possibility of restructuring the economy by resorting to administrative methods in view of the fact that the ability to control the economy has been forfeited, as well as in view of the nature of the country's social and political system.

Under these money-supply and market-related circumstances the chances for an effective reform are also not very likely. The productive resources deficit means that it will be necessary to carry on with the policy based on the distributive allocation of many fabricating materials and finished goods, and this in turn means that we will be forced to take a command approach to the formulation of production programs, even in cases where there is still a buyers' monopoly when it comes to the procurement of those products which are most scarce.

Experience teaches us that the command-distributive system develops in an evolutionary fashion and does so relentlessly. The volume of mandatory production quotas tends to increase rather than tending to diminish. It is only the severe crunches that occur from time to time that tend to reduce temporarily the volume of these mandatory quotas. This is by no means a consequence of ill will on the part of the economic bureaucracy, but rather of the logic of the practice of shifting the burden of scarcities in an economy that is operating in a stressful environment. A great deal has already been written on this subject.²

However, wherever and whenever the command-distributive system goes on the retreat there emerges a strong tendency toward rising prices, a tendency marked by mutually reinforcing inflationary trends. The possible future introduction of price controls will not be very effective. To enhance the effectiveness of this policy by setting prices by fiat will mean that prices will continue to be false parameters and that the system of barter transactions will persist. And this will be attended by the persistence of a multiplicity of currencies. All in all, this will do nothing to help bring about the desired reordering of priorities in favor of the increased productivity of productive resources. The passage of an economic reform under these circumstances might result not in increased productivity, but rather in an increase in prices as well as in a gradual return to the command-distributive system. However, if we were to make a consistent effort to gradually do away with the distributive and command approach to the allocation of resources while trying to set prices that are conducive to equilibrium, then the results might also turn out to be not so very encouraging, i.e., galloping

2. Vide, inter alia, one of the oldest studies on this subject: J. Beksia and U. Libura, "Rownowaga gospodarcza w socjalizmie" [Economic Equilibrium Under Socialism], PWN, 1969.

inflation accompanied by a policy dedicated to income redistribution. If in the final analysis inflation holds sway as a result of cutbacks in budget appropriations and the allocation of credits, then we will be left with an inequitable distribution of incomes and perhaps even unemployment.

The absence of a commonly accepted unit of equivalent value does not offer very much hope for the success of either restructuring or economic reform. It is impossible not to see that in the midst of all this chaos, which is a product of the existence of barter transactions and a multiplicity of diverse currencies, a commonly accepted unit of equivalent value is emerging in the form of a foreign convertible currency. It goes without saying that it would be absurd to use a foreign currency as a commonly accepted unit of equivalent value in Poland. The possibility does exist of finding an alternative, better solution to this problem--a question to which I will return later on.

Can the Zloty Be Saved for the Sake of Reform?

Even at the start of this year I was convinced that this is possible.³ And even now this is still possible, though less probable. In order to restore to the zloty the attributes of a commonly accepted unit of equivalent value it is necessary to greatly reduce its purchasing power and the amount of zlotys in circulation. In the course of the past year the inflationary gap has gotten much worse and the money supply has increased. Among the necessary measures that have to be taken to achieve this goal the first thing that comes to mind, and rightly so, is price reform. Price reform stands for:

--Raising and changing the structure of prices charged for consumer goods, raw materials, fabricating materials, and so on. This program, which is slated to go into effect on 1 January 1982, will in effect be tantamount to the adoption of nothing more than a "rock-bottom package" of consumer good price changes. It would be naive to conclude that we are going to stabilize the prices of these kinds of goods by enacting this price increase. If the wholesale goods market is going to function normally, then it will be necessary to move toward the adoption of further "adaptive" price changes that will be conducive to equilibrium. It is not hard to foresee the direction that changes in the overall level of wholesale prices will take, i.e., a trend toward higher prices. An increase in the prices of wholesale goods will exert pressure tending to bring about an increase in the prices of consumer goods.

--It will become necessary to raise the prices of consumer goods, especially foodstuffs, in order to guarantee the profitability of their production and bring these prices closer into line with equilibrium prices. Even this price change will be preliminary in nature, a price change that will be followed by further increases. An inflationary trend in all categories of prices will contribute nothing toward bringing about a reduction in manufacturing costs or toward making the exploitation of productive resources more efficient. The economic consequences of these price increases may prove to be unsatisfactory,

3. Vide M. Gorski and K. Ryc: "What Way To Stabilization," *ZYCIE GOSPODARCZE*, Nos 11, 12, and 13, 1981.

since it is common knowledge that inflation contributes nothing toward the adoption of more efficient management practices.

Price increases should also serve another purpose. Namely, they should help to bring the level of real personal incomes closer into line with the level of deliveries of consumer goods and services, and they should furthermore, in the opinion of experts, help to reduce the real purchasing power of the forced savings amassed by individuals, the so-called inflationary curve. To this end, it is being suggested that there should be radical increases in the prices of manufactured goods, especially higher quality goods, which are perversely referred to as luxury goods. This is supposed to be an indirect "luxury" tax, the kind of policy that is easier to enforce than a direct tax or a reduction in nominal wages.

All of this has to be supported by a tight money policy vis-a-vis enterprises and institutions, a policy of stringent budget cuts, and various programs geared toward reducing the volume of too much money chasing too few goods in the marketplace, programs such as domestic loans, the paying of higher interest rates on long-term deposits, an advance-sale system patterned after the advance sales of automobiles, and so on. This package of programs pretty much speaks for itself as far as the stabilization of the economy is concerned. The question as to whether it is appropriate under conditions marked by a downward trend in industrial output and under circumstances marked by severe social tensions is another matter. The point is that the level of real incomes should be brought into line with the level of deliveries to the marketplace in a situation where such deliveries are declining with each passing month. This is also a question of bringing the level of real personal incomes into line with the constantly declining level of consumption, a level which for the time being has to decline even further before it matches the level of deliveries to the marketplace, since it is necessary to rebuild inventories so that the marketplace can function at least somewhat better than it does now.

What Kind of Alternative?

If all of these programs proved to be successful, then the economic mechanisms that are being introduced by the reform would have a chance to perform their intended functions. The groundwork would also be laid for resolving our present crisis. However, if this package of programs does not succeed, or if it succeeds only in part, that is, if it does nothing more than alleviate strains in the marketplace and in the realm of wholesale goods deliveries, then the prospects of the reform are not good. This is because inflationary pressures will be generated that will make inflation even more rampant, and attempts to counteract these pressures will tend toward the revival of administrative instruments, which will mean the gradual reinstatement of the command-distributive system. Under these conditions the implementation of the reform will be predicated on a long-term commitment on the part of the authorities in favor of the consistent implementation of the reform process, notwithstanding temporary setbacks, and, what is most likely equally important, on the long-term patience of the general public that is bearing the brunt of this economic crisis. The general public has to be prepared to live with a long-term "transitional period," the ultimate outcome of which is by no means clearly positive. It is also hard to foresee the social consequences of having to spend several years living in a depression.

Under these circumstances, while sparing no pains to lay the groundwork for the implementation of economic reform, a strong effort needs to be made to seek out alternatives to this package of programs, a package which is deemed to be essential in order for the economic reform to produce the desired results, and we are not altogether certain that these results are attainable.

If the zloty cannot be saved for the sake of the economic reform, then the alternative is to sacrifice the zloty for the sake of reform and the restructuring of the economy. There is a whole host of proposals as to how this sacrifice should be made. There is only one such proposal which, in my opinion, ought to be ruled out, namely, the nonequivalent option such as the one that was adopted in 1950. This is not merely a question of the savage nature of such a program (which was aptly described by R. Skarzynski in ZYCIE GOSPODARCZE, No 41/1981) and its negative social consequences, rather it is first and foremost a question of seeing to it that the zloty, which is not a commonly accepted unit of equivalent value, is not replaced by another currency which also does not possess this attribute or which will lose this status just as quickly. In a word, one cannot advocate currency substitution just for the sake of wiping out an inflationary gap or an inflationary curve, since conditions will very quickly revert back to their previous state. New economic mechanisms must precede the possible future adoption of a new currency.

Compromise proposals have also been made. One of these proposals calls for the temporary suspension of the requirement to accept part of the proceeds due under the terms of bills of sale in the form of National Bank of Poland notes, over and above specified sums paid in the form of earnings or savings account withdrawals. This would be tantamount to a compulsory government loan. A proposal has also been made advocating a ration coupon form of currency, a proposal which would in effect contribute nothing toward restoring economic equilibrium, even though it might make things easier for consumers in terms of selecting goods on the list of rationed commodities. There are other proposals favoring a "coupon" currency which would give certain people the right to do their shopping without waiting in lines, that is, those people in whom we have a special interest when it comes to the creation of incentives to work or engage in some form of economic activity. An interesting proposal advocating this type of currency was presented by A. Nalecz-Jawecki (ZYCIE GOSPODARCZE No 44/81). It also seems to be fitting that we should accept the argument advanced by W. Bien (ZYCIE GOSPODARCZE No 42/81) who says that, "...putting a privileged currency into parallel circulation is in essence tantamount to the adoption of a nonequivalent currency denomination (i.e., the zloty--K.R.)," even though some of the other arguments advanced by this author are debatable, especially when it comes to his interpretation of Copernicus'-Gresham's Law. Reducing the money supply by temporarily suspending the requirement to accept part of a payment due under the terms of bills of sale in the form of NBP notes can do nothing more than to facilitate the restoration of a relative kind of equilibrium and serve as a substitute for price increases. But this would reduce public confidence in our currency and would not lay lasting foundations for the restoration of orderly monetary transactions. On the other hand, a coupon-type currency might make it easier to find solutions to many of our most pressing problems such as the revival of the farm products procurement system or also the creation of stronger incentives that would encourage people to work harder, but it would not resolve the fundamental problem, i.e., the creation of a monetary incentive that would stimulate the restructuring of the economy and an improvement in the efficiency of management.

The most responsible solution, a solution that represents a realistic alternative to the package of measures geared toward the restoration of economic equilibrium, would be to introduce a new currency to replace the zloty, a new currency that would perform all of the normal functions of a unit of monetary value, including convertibility into foreign currencies. The adoption of a "full-service" currency accompanied by the implementation of the basic premises of economic reform would signify the laying of a genuinely new, and positive groundwork that would help to encourage efficient performance on the part of all participants in the economic process. A monetary reform cast in this mold was enacted in Poland in 1924, and similar reforms were also enacted in other countries, for example, in the FRG after the war. It is my belief that such a solution is not realistic. Our economy would not be able to stand up to a confrontation with the world market. Without repudiating the ideals of putting a sound currency to work to restore the economy's health and forcing participants in the economic process to behave in a way that is conducive to greater efficiency and to bring about the desired restructuring of industry, it is for this reason also that it is necessary to search for more complex, atypical solutions, for the situation in which our country now finds itself is also highly complex and atypical.

A Proposal for the Adoption of a New Currency

It is being proposed that a "new zloty" should be introduced in order to rescue the economy from the perils of galloping inflation, eliminate the administrative constraints on the implementation of economic reform, minimize the adverse consequences of price controls, including in particular the adverse consequences of attempts to close the inflationary gap and eliminate the inflationary curve, avoid a doubling of prices charged for scarce productive resources (producers' prices), lend new impetus to the production of scarce goods, and encourage their economical consumption. The adoption of a new currency would have nothing in common with a currency substitution similar to that which took place in 1950, but it would signify the making of an attempt to re-establish the rules of efficient management practices accompanied by the implementation of an economic reform. A new currency would make it possible to resurrect the economic bonds that hold the economy together, starting with those branches of the economy which are economically the most efficient performers by endowing them with a privileged status, and it would give other branches and enterprises a strong incentive to match this performance record. This would then result in the demanded and desired restructuring of productive resources and finished goods.

The new zloty would be a convertible currency with a set rate of exchange in relation to the principal convertible foreign currencies. This is not to rule out transitional quota restrictions on the amount of currency exported abroad by tourists. The printing of a new zloty would be based on a loan issued by the International Monetary Fund, the foreign exchange holdings of private citizens deposited in savings banks (the source of possible future internal foreign exchange loans), the temporarily idle foreign exchange assets of economic organizations, other foreign loans taken out in order to stabilize the Polish economy, and so on.

The new zloty would be used to pay for imported goods, domestically manufactured goods that could be sold for a profit on export markets, and goods intended to take the place of imported goods. This would apply first and foremost to critical raw materials and foodstuffs.

The new zloty would also supplant "Pewex" commodity coupons.

Enterprises would use the new zloty to purchase all productive resources without limits or restrictions as to whether they made these purchases on the domestic market or on foreign markets. In order to give preference to domestically manufactured goods tariffs would be introduced payable in new zlotys. The prices of goods purchased with new zlotys would be equilibrium prices, prices which would naturally be comparable to world price ratios.

It might be that the new zloty would be paid in the form of a portion of the wages and bonuses paid to workers employed in enterprises earning revenues in the form of this currency (ideally, this should apply to all wages and bonuses). The way in which these revenues are to be distributed would be determined by the self-governing bodies of these enterprises. The new zloty could be traded in the marketplace to buy all kinds of consumer goods without restrictions, as well as other scarce items (e.g., building materials, building lots, land, and so on).

The "old zloty" would continue to be an operative currency in tandem with the new zloty. The old zloty would serve as legal tender within the context of the allocation of producers goods and for wholesale deliveries of all other producers goods which do not figure prominently in international trade for reasons having to do with their quality, terms of sale, and so on. Old zlotys would be used as a medium of exchange in the allocation of rationed consumer goods and other regulated commodities (commodities distributed by means of allocations, coupons, and so on). Old zlotys would be used to pay all duty taxes and to purchase all goods not paid for in new zlotys. Wages and other cash benefits would continue to be paid in old zlotys until such time as enterprises and institutions would begin to earn revenues in the form of new zlotys, thereby enabling them at first to make some, and later on all payments of wages and cash benefits in the form of new zlotys. The old zloty would be convertible to the new zloty at a rate of exchange matching the supply of and demand for the new zloty.

The process whereby the new zloty would be disseminated through the economy would be economic, and not administrative in nature. The supply of new zlotys would be a function of the extent to which it is backed up by foreign exchange reserves. It would not be possible to earn new zlotys as a result of any negotiations other than commercial negotiations. This means that it would be possible to earn revenues in the form of new zlotys only insofar as it proves to be possible to find buyers for goods and services who would be prepared to pay for these goods and services in new zlotys. All that would be left for the government to do would be to take the first steps toward putting this new zloty into circulation.

It is being proposed that the new zloty should be put into circulation in accordance with the scenario described below.

The new zloty would be used to pay for the output produced by the mining industry and for the purchase of foodstuffs from farmers through the procurement system.

New zlotys would also be earned by enterprises for export sales of their products. All other enterprises would be able to earn revenues in the form of new zlotys provided that they sold their products for export or to farmers, the mining industry, or also to other enterprises producing goods for sale in export markets. This means that these sectors of the economy would be put in a highly privileged position. Nor would enterprises in these sectors have any problems in meeting their manpower needs, since they would be able to pay a portion of the compensation owed to employees in the form of new zlotys. And the rate of exchange for the new zloty in relation to the old zloty would be highly favorable to start with. The impact of the new zloty would be "infectious." All enterprises would be looking for ways to earn new zlotys by making their product mix more attractive to consumers. At the same time, they would be forced to follow strict policies dedicated to the conservation of all of those productive resources which have to be paid for in new zlotys, i.e., those forces of production which are in short supply in our economy. The increasingly more widespread use of the new zloty in transactions among enterprises would be accompanied by the desired restructuring of industry and an increase in its performance efficiency.

The relationships between the old and new currencies would probably evolve in the following direction.

For as long as both types of currency remain in circulation the "superior" currency will be immune to inflation. In keeping with Copernicus'-Gresham's law the new zloty would be an object to be hoarded and deposited in savings accounts. This would tend to create increased opportunities for issuing new zlotys that are backed up by a "safe" margin of foreign exchange reserves. The "issue initiative" taken by the bank issuing the new currency would turn out to be an important contribution toward building up the fiscal strength of the country. Further issues and the more widespread circulation of the new currency would in time lead to the complete eradication of the old currency. Government revenues earned from taxes and tariffs paid in new zlotys would make it possible for the government to use these new zlotys to pay an increasingly larger share of the salaries of employees working for publicly funded institutions and cash benefits for the public at large.

The transition to the use of a new currency to pay for wages and transfer payments would mark the end of the processes of "pegging" wages to current cost of living standards, the restructuring of prices, the elimination of all rationing programs, the elimination of the inflationary gap in the economy, the elimination of the inflationary curve, and so on.

It may be that it will not be possible to take this approach in order to extricate ourselves from this economic crisis while preserving the same standard of living that prevailed prior to the onset of this crisis. But the foundations will have been laid for an improvement in living standards as a result of the improvement in the performance efficiency of management which will succeed in squeezing "sound money" out of the economy.

In the realm of production the adoption of a new currency to replace the "old" currency would at one and the same time signify:

--the restructuring of productive industries along lines that favor those sectors and branches of the economy that are now classified as bottlenecks, i.e., agriculture and the materials-coproduction infrastructure, including in particular those industries producing goods for export,

--the effective exploitation of the economy's productive forces and the elimination of the least effective applications of these resources,

--a test of the validity of the structure of production from the standpoint of end-user demand on the domestic and foreign markets,

--the elimination of the least efficient economic entities which are not able to meet the demands of the marketplace, that is, those which are not able to reassess the way in which they manage their productive resources and test the validity of their product mix, and so on.

Improved efficiency in the management of productive resources and the wholesale restructuring of industry would signify the permanent eradication of the repetitive cycle of crisis-producing tensions, and not just an effort to come to grips with the present crisis.

Together With or a Substitute for Economic Reform?

This is not just a rhetorical question. It goes without saying that the new zloty can yield the expected benefits only in a reformed economy. It is my belief that this is a proposal that could be acted on right away. Even though, to put it mildly, we are faced with a future in which foreign exchange earnings are going to be very meager, this is all the more the reason why economic organizations should be given a chance:

--to buy what they need in Poland at lower prices than those which prevail abroad,

--to earn profits from export sales and co-production arrangements with enterprises producing goods for export,

--to revive the production of goods that are especially scarce,

--to cultivate opportunities for building up "retained earnings" and for the more careful and economical management of liquid assets.

The country's needs can be effectively addressed with the help of import and export tariffs--in the case of scarce raw materials and fabricating materials--without going too far toward tying up funds that are needed to pay for imports of essential raw materials and fabricating materials that cannot be produced domestically. The supply of raw zlotys may at first not be large enough to finance purchases of all the producers goods that are needed by agriculture and the mining industry. During this initial period it will be necessary to restrict purchases to just some of these producers goods and wait until later on to enlarge the purchasing quota list.

The adoption of an alternative currency is attended by a certain element of risk. This is the risk of setting out into uncharted territory. But, as I said before, the situation in which our economy finds itself is not typical. If we do not take this risk and lay the groundwork for the implementation of an economic reform and if the economy is "taken by surprise" by the introduction of efficiency-boosting mechanisms, then this proposal may come to be regarded as some kind of curiosity. It will be relegated to the realm of intellectual game playing. After many years have gone by our economy will gradually move closer to the point where it is endowed with a sound and convertible currency, something which is essential for the sake of efficient economic management. If, on the other hand, the economic reform is a failure and enterprises do not respond with programs geared toward promoting efficiency and bringing about the desired restructuring of their product lines--a possibility that unfortunately cannot be ruled out--then this "new currency" may prove to be absolutely essential as a means of extricating ourselves from this chaos and crisis which will grow even worse. In this case the dissemination of a new currency may serve as a way to promote the more widespread acceptance of new rules of economic conduct, rules governed by the laws of the market.

Neither at this juncture can one rule out the kind of economic development scenario according to which the command-distributive approach to economic management would cease to function in an effective manner without there being any way of guaranteeing the enforcement of discipline among subordinate economic entities. Faced with mounting difficulties, enterprises would begin to be guided by the principle of "every man for himself." Under these circumstances the adoption of a new currency would become unavoidable, since, otherwise, a convertible foreign currency would begin to fulfill the functions of a new currency. This is because an advanced economy cannot get by with simple barter transactions.

However, it may be more likely that a second scenario will be played out, according to which, acting in the best interests of the enterprises themselves, it will be possible to preserve a bare minimum of the discipline that is necessary in order to enforce the decisions made by higher ranking economic institutions. In this case the system based on the distributive allocation of productive resources and the rationing of consumer items of fundamental importance to the people's standard of living will remain intact. Thus, management practices similar to those now in force will remain in effect. In this case too, the adoption and dissemination of a new currency may herald the adoption and general acceptance of new rules of economic management. The adoption of this new currency will then be followed by economic reform.

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CONFLICT OF PLANNING METHODS PUBLISHED

Warsaw ZYCIE GOSPODARCZE in Polish Nos 45, 46, 8, 15 Nov 81

[Article by Jozef Kubas]

[Part One, 8 Nov 81 p 4]

[Text] The article "Concerning the NPSG [National Socioeconomic Plan] for 1982" (ZYCIE GOSPODARCZE No 31/1981) unleashed a public discussion over the form and character of the economic plan for 1982. It is not a trifling question, since it concerns a period linked with society's hopes for the reversal of the unfortunate turn of economic events, by means of economic reform and actions taken to stabilize the government.

It is not my intention to polemicize directly with the theses of the above article for two reasons. First, I am in disagreement with them to such an extent that a probable rejoinder would, of necessity, lend my answer the character of a review; second, by polemicizing I would be depriving myself of the possibility of presenting public opinion with the views of the economists grouped together in the CENPLAN Government Center of Information Science and with my views as well on basic questions associated with the preparation of a draft plan for next year.

The above-mentioned article is merely an overture to the game of the form to be taken by the plan for 1982. Since the time of its issuance, the Planning Commission under the Council of Ministers has been circulating a document entitled "Initial Assumptions for the Draft of the Socioeconomic Plan for 1982" (ZYCIE GOSPODARCZE No 38/1981).

By reading it, one is able to become much better informed about the approach proposed by central planners to the structure of the draft plan for the coming year.

I shall evaluate this document from the viewpoint of certain criteria which, in our opinion, should correspond to the central yearly plan prepared for the actual particular conditions of the operation of the Polish economy during the coming year.

It is our belief that the goals, the tasks and the centrally administered funds for their implementation, as well as the parameters guiding the economic-financial system of the economy should be directly aimed toward its stabilization and the

consistent application of economic reform. The bases for actions taken in this area are the "Government Program for Overcoming the Crisis and Stabilizing the National Economy" and "The Directions of Economic Reform," both of which are known to society.

The structure of the plan for 1982 should have a problematic character and should be based on the principle of the selection of vital elements. The proposed concept enables the concentration of governmental attention and public energies on the most important questions, as well as on strengthening desirable developmental processes and neutralizing negative tendencies.

In the establishment of the proper implementation policies in the course of planning, care should be taken to select the right tools for the creation of these policies, i.e., tools appropriate to governmental operation under conditions of a reformed national economy.

Getting out of the economic crisis takes energy, the intellectual stimulation of society and the utilization of society's initiative and resourcefulness to overcome mounting difficulties. One road leading to this goal is the drawing up of the plan in a dialogue with society. The methodology of the planning process should determine the forms and procedure of its socialization.

To what extent do the "Initial Assumptions" correspond to the criteria presented above?

The document under discussion has, as its primary goal, "the restoration of developmental processes in the economy..." The authors of the document also subjugate the available remedial measures and the actions which have been taken to this end. They make the statement in the introduction that "an important new factor for economic activity is the introduction of economic reform and the reform of producer prices on 1 January 1982...as well as the planned reform of retail prices...." However, the projected socioeconomic situation of the country according to the document does not yet consider this factor from the viewpoint of the positive--or negative--effect of reform activities upon the processes of economic growth.

After making the statement that the results of the application of economic reform are difficult to predict, they cite, among the factors determining this situation, only the problem of intensifying coal production, the balance of payments deficit and the implications flowing therefrom, the situation in agriculture and the growth of the inflationary gap on the domestic market.

As a consequence of the abandonment of even an attempt to gauge the effect of the planned reform on the development of economic events in 1982, the picture of planned governmental tasks in the economic field in the "Initial Assumptions" is greatly impoverished and is completely inadequate for such a difficult crisis situation of the Polish economy. It is almost wholly reduced to shooting at one basket: an increase in coal production, the several varieties of which become the sole determining factor in our economy and national living standard. This seems more than doubtful.

I would like to be clearly understood. I am well aware of the significance of coal for getting us out of the current, unusually burdensome situation, and I

consider the intensification of coal production to be most essential. At the same time, however, I remember that less than 2 years ago we produced over 200 million tons of coal, and in spite of this the economy began to drop. Therefore, even if we reach the level of coal production prescribed by the "variant of hopes," unfortunately it does not mean that we will achieve the hoped-for improvement in the state of the economy. This depends on a change in the social and economic-financial conditions within which it will come to operate. The assumptions are linked with this in name only and do not anticipate the economic consequences of the planned reform, which is their basic shortcoming.

The assumptions are totally devoid of elements of the active state economic policy which must be conducted for the fulfillment of the "variant of hopes" and the avoidance of the "variant of fears." Second, the assumptions continue to express the idea of the separation of so-called material planning from financial planning. This was sharply criticized in the past and it cannot be upheld now when the organizational units of the national economy, enterprises, are to operate under principles symbolized by three "S's": self-government [samorzadnosc], independence [samodzielnosc] and self-financing [samofinansowanie].

Of incomparable significance from the societal viewpoint is the government's submission of planned policies in selected fields of the economy to public discussion with regard to the importance of the quantitative characterization of the social and economic goals confronting society. No one doubts the government's good will in its intention to attain these goals, but it is more important to inform society how it proposes to achieve them.

Now I would like to give others the opportunity to rigorously criticize the draft plans advanced by economists working in the CENPLAN Government Center for Information Science in those fields of economic policy which are of prime interest to central planners.

First I will present the assumptions of the policy of regulatory control in the area of raw and other materials which, in our opinion, should be carried out next year:

1. The Planning Commission under the Council of Ministers prepares the balance-sheet of raw and other materials by agreement with the Ministry of the Material Economy and other interested ministries.

The Planning Commission may authorize the appropriate economic organizations working in the sphere of the wholesale turnover in raw materials and balance materials centrally to prepare the respective balance-sheets for the needs of central planning.

2. A primary goal of the prepared balance-sheets is to gain practical knowledge of the state of available raw and other materials resources and of the development of their yield and domestic production, and to analyze the physical and economic limitations for the development of the national economy issuing therefrom.

A basic function of the balance-sheets is their informational function. This is why they should also be made known to central planners and to economic organizations working directly within the production sphere. The balance-sheets of raw

and other materials prepared for the needs of central planning should be published, and the central plan should point out the implications of these balance-sheets on the production and developmental policy of production and service organizations.

The balance-sheets of raw and other materials must be updated continually on the basis of the analysis of the formation of the general volume of supply and demand as a result of changes in price determinants which cut off supplies of ineffective item demand.

The balance-sheets of raw and other materials prepared at the central level thus cease to have an exclusively quantitative character and acquire the form of an economic category.

3. The balance-sheets of raw and other materials are not confirmed. They have the value of a diagnostic prognosis and are useful in the process of central planning. During a transitional period, a few of them may serve as a foundation for the preparation of raw and other materials distribution lists, confirmed according to the appropriate procedure.

4. The balance-sheets of raw and other materials prepared at the central level likewise demonstrate their economic character in that they are set up according to economic systems, i.e., allocations are made toward ultimate goals and not toward consumers. Balance-sheets set up according to consumer-oriented expenditures, beginning with the balance-sheets prepared for planning needs for 1982, are being abandoned. In this way, the raw and other materials balance-sheet has stopped being a distribution index, because of the nature of things.

5. We propose that the expenditures side of the raw and other materials balance-sheets prepared for the needs of central planning for 1982 temporarily have the following structure:

1. socially protected needs, specified in concrete goods and services;
2. export, in the system: goods supply of specified export production; the direct export of a given raw material or other material;
3. intermediary reserves at the central level;
4. the remaining needs of the domestic market.

The raw and other materials distribution lists for 1982 confirmed by the Council of Ministers should have a similar structure.

6. We propose that the distribution for 1982 include only the following raw and other materials:

<u>Name of Material</u>	<u>Implementor of Distribution List</u>
1. Hard coal and hard coal briquettes	Central Office of Coal Purchasing
2. Coke and semi-coke	Central Office of Metallurgy Supply
3. Fuel for combustion and diesel engines, heating oil	Central Office of Oil Products
4. Products of ferrous metallurgy	Central Office of Steel Purchasing
5. Products of the nonferrous metals industry	Central Office of Nonferrous Metals Trade
6. Products from precious metals	State Mint
7. Cement	Bureau of Cement, Limestone and Gypsum Purchasing
8. Electrical power and gas	Main Inspectorate of Power Industry Management

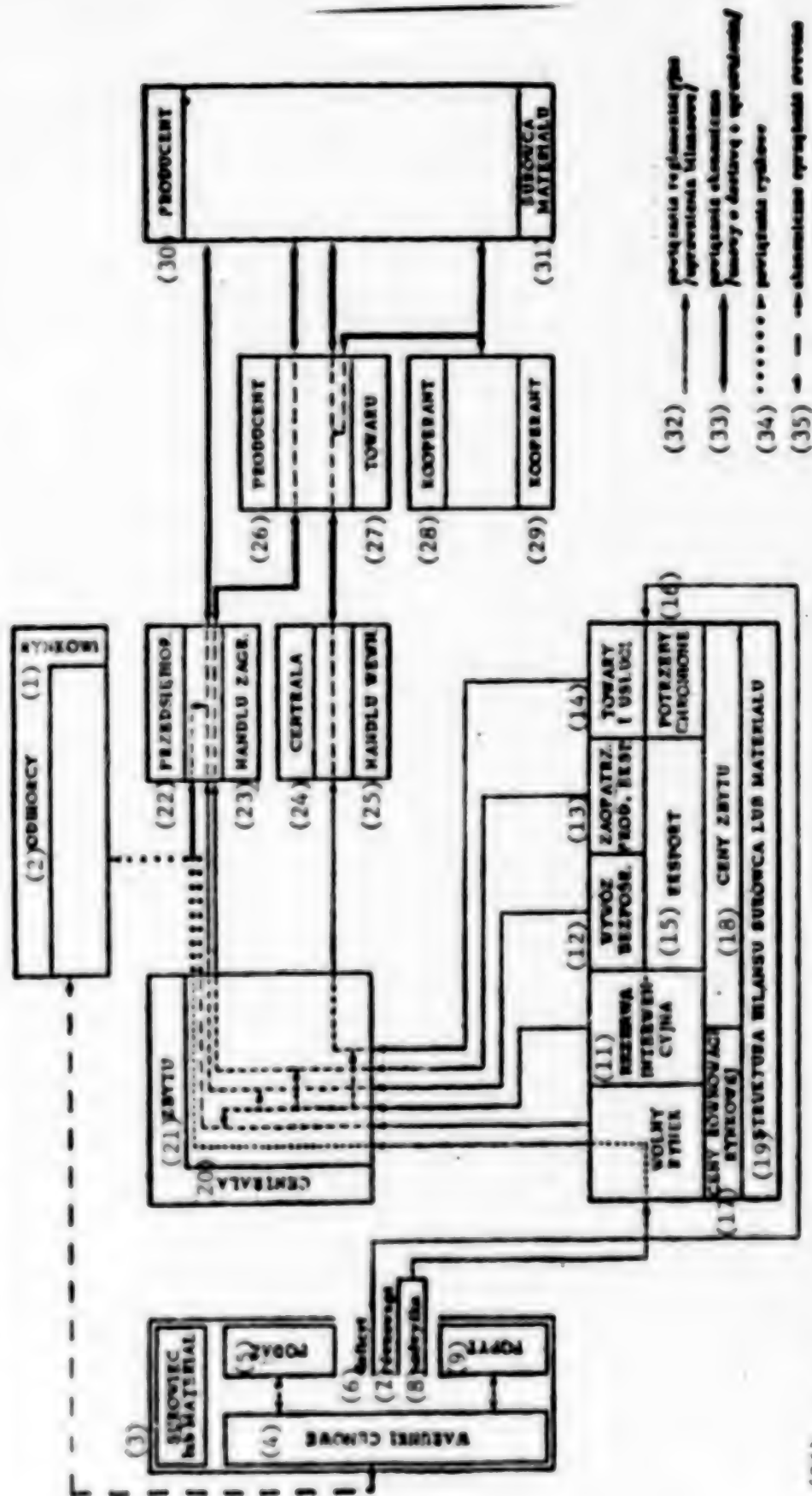
7. We propose the following procedure for the regulatory control of raw and other materials for 1982.

Based on the directives of the Planning Commission, the proper implementor of the distribution list (central office of purchasing) for the given raw or other material grants the appropriate authorization for the purchase of the amount of raw or other material necessary for the manufacture of a given product to the central office of domestic trade dealing in the turnover of the product (which serves to meet protected social needs). At the same time, it indicates the production volume for the product for which the authorization is granted. The central office of domestic trade next concludes a contract with the producer or producers of the given product concerning the implementation of production. At the same time, all or part of the allotment of raw or other material is delivered.

In this way, the legal relationships between both central offices are administrative relationships (granting of the authorization), while the relationships between the central office of domestic trade and the producer of the given product are economic relationships spelled out by contract. In this way as well, the state acquires a legal and economic guarantee, highly effective under conditions of a reformed economy, that the distributed raw or other material will serve the manufacture of socially preferred production and not just any sort of production. Such a danger, on the other hand, really does exist when the authorization for the purchase of raw (or other) material indispensable for the manufacture of a specific item is granted to its producer without the simultaneous legal binding of the producer to implement its production.

The implementor of the distribution list should proceed similarly with regard to products specified in export, with the difference that the consignee of the materials authorization would be the appropriate foreign trade organization.

Flow Diagram for a System of Regulatory Control of Raw and Other Materials in the Market System (during a transitional period of the application of economic reform)



(36)

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[Key to Flow Diagram]

- | | |
|---|---|
| (1) market | (21) of sale |
| (2) consumers | (22) enterprise |
| (3) raw or other material | (23) (of) foreign trade |
| (4) price conditions | (24) central office |
| (5) supply | (25) (of) domestic trade |
| (6) shortage | (26) producer |
| (7) equilibrium | (27) (of) a product |
| (8) oversupply | (28) co-producer |
| (9) demand | (29) co-producer |
| (10) free market | (30) producer |
| (11) intermediary reserves | (31) (of) raw or other material |
| (12) direct export | (32) regulatory control flow
[balance-sheet authorizations] |
| (13) supply of export products | (33) economic flow [contracts for
delivery and authorizations] |
| (14) goods and services | (34) market flow |
| (15) export | (35) reverse economic pressures |
| (16) protected needs | (36) prepared by the CENPLAN
Government Center for Information
Science; author, Dr J. Kubas |
| (17) stable market prices | |
| (18) sale prices | |
| (19) structure of the raw materials
or other materials balance | |
| (20) central office | |

The "flow diagram for a system of regulatory control of raw and other materials in the market system" clarifies the above concept of regulatory control proposed for use during the transitional period of the application of economic reform.

The remaining demand of production and service units of the national economy for controlled raw and other materials should be met through the appropriate central office of purchasing at stable market prices, i.e., inclining upward from the purchase price. In this way, the economic process of eliminating ineffective demand for limited raw and other materials from the national economy will be set in motion.

The proposed solutions enable the simultaneous operation of economic mechanisms and distribution.

[Part Two, 15 Nov 81 p 6]

[Text] In the previous issue we published the first part of the article by Jozef Kubas. In that part the author criticized the proposed planning methodology set forth in Erwin Plichcinski's article (ZYCIE GOSPODARCZE No 31/1981) and began to introduce ideas for solving problems in economic policy in those fields which are of foremost interest to central planners. These are concepts prepared by the CENPLAN Government Center for Information Science. In the previous article J. Kubas presented assumptions for a policy of regulatory control in the area of raw and other materials.

Next, in the sphere of wages we see the need for an economic policy to be carried out which would take into account the following observations and solutions.

Within the framework of the intended economic reform, the following three variants of an incentive system within the enterprise are proposed:

Model A--based in part on an increase in the average wage independently of the success of the enterprise, and in part on the average wage contingent upon its success, or on profit sharing. It is a weakness of this concept that wage guarantees based on the average wage signify the identical treatment of enterprises independently of the degree to which their products or services are accepted by society.

In consequence of the adoption of model A, the following may occur:

- a continued state of market instability,
- the financing of hidden unemployment,
- the weakening of employee morale due to the considerable relaxation of the economic link between work results and remuneration,
- the creation of a substantial obstacle to the restructuralization of employment in the economy.

Model B--based on the parallel utilization of measures of income and profits as tools for regulating the wage fund. This model, which is in essence similar to the WOG [Large Economic Organizations] model, has the following shortcomings:

- it is a model based on two kinds of criteria; consequently, it makes use of at least two wage funds: a wage fund calculated on costs and an incentive fund based on profit, which may lead to the undesirable disintegration of the work force,
- it requires complex financial tools for the regulation of enterprise income and the income of individual employees.

Model C--the use of which is favored by our community, is a model based on the independent sharing of income by the enterprise. It envisages the greatest degree of autonomy of economic organizations in proportionate sharing at the level of the economic organization. Income is understood as the difference between receipts from sale, product-type subsidies and extraordinary profits, and the obligations of the enterprise (with regard to budget, banks and other organizational units), costs (with the exception of wages and such elements as, up to this time, have been an additional product, e.g., ZUS [Social Security Agency] dues and bank interest) and extraordinary losses.

Income is subject to verification for the purpose of: eliminating irregular profits (attained by the violation of legal regulations) and independent profits (the result of decisions of state authorities in the area of prices and other price-fixing standards, organizational changes during a transitional period made as a result of a state initiative or of the initiative of the enterprises themselves). The claims and principles for the verification of income should be

specified in a normative document, the contents of which are to be agreed upon by trade unions. Irregular income is turned over to the budget (together with a 50 percent sanction in the event of its concealment); independent income is subject to accounting with the state budget in the form of a quota tax or a compensatory subsidy.

The state acts to control the amount of the wage fund created independently by the enterprise through indirect means. The following solutions are proposed in this area.

In state enterprises, control of the wage fund is exercised by means of a progressive system of taxing that part of an enterprise's income which is designated for wages. The basis of taxation is the new average level of the wage fund calculated per employee (the average wage expected to be implemented during the settlement of accounts period). The scale of the taxing progression should be uniform, and it should be linked to the rate and size of the average wage increase within the entire economy. By way of example, it may shape up in the following manner:

Average wage increase during the settlement of accounts period over and above the average wage level free from taxation--basis of the tax	Size of individual tax		Net wage increase to be implemented (cumulatively)
	percent	quota (cumulatively)	
1--100	15	15	85
101--200	30	45	155
201--300	45	90	210
301--400	60	150	250
401--500	75	225	275
501 and above	80		

For state enterprises with limited self-government (participatory model), which include: the fuel industry, raw materials industry and industries of basic semi-finished products, creating a state monopoly and the state economic infrastructure; as well as for community service enterprises for which prices are fixed by administrative organs, central and local, the category of the guaranteed wage fund is introduced. It is defined as the product of the established percentage--lower than 100 percent--of the base, average wage and the base employment rate. The average wage calculated in this manner should take into consideration cost of living increases. In the event that the enterprise is lacking its own means, this fund is covered out of a special bank credit granted, under a guarantee of the state budget, for a period of not more than 1 year. If, during this time, the enterprise does not bring in enough income to enable payment of the credit, the budget is obliged to pay it instead of the enterprise.

In addition to the control of the wage fund in the enterprise, the individual income of employees is likewise subject to state regulation by means of a system of compensatory taxation. This tax should take into account the level of expenses (and not income) incurred by a family member as the basis for taxation.

The tax rate and the procedure for compensatory taxation requires separate regulation determined in consultation with society.

For the purpose of warding off the socially negative consequences of the easy attainment of high profits during the first period of reform as well as counteracting high payments into the wage fund as a result of such profits, the following bases of the economic-financial system of enterprises are proposed for stimulating the producers' base:

1. Payments into the wage fund shall be made within the framework of the available funds, after the timely payment of all of the enterprise's obligations with regard to budget, banks and creditors. The granting of bank credit earmarked for wages imposes upon the bank the obligation to make a careful check into the financial situation of the enterprise. It is also tied in with the limitation of the maximum average wage to be paid during the given period even if the credit granted is merely auxiliary.

2. Enterprises are obliged to create a wage reserve fund in an amount corresponding to the sum of wages. This fund is created over a period of 3 successive years out of enterprise profits, with half the targeted amount being set aside in the first year. If the enterprise shows balance-sheet losses, these losses are covered in the first order out of the wage reserve fund. Any sort of reduction in the wage reserve fund during a given settlement of accounts period (1 year) must be made up in the required amount during the next period. The wage reserve fund is free from taxation.

3. The state budget provides enterprises shifting over to a reformed financial system with an enterprise statute fund, in an amount equal to the net value of durable resources. Upon its turnover, this fund is amassed from the enterprise's own profits during the course of its economic activity. This financial requirement makes necessary the use of bank credit at a high rate of interest for turnover purposes, with a different interest rate on organizational units (plant and equipment).

We may expect that in this way enterprises will be relatively more strongly interested in liquidating their expensive turnover credit, designating the excess of income brought in over outlays and profits, for the financing of turnover funds. With the progressive taxation of the created wage fund in relation to the average wage free from taxation, the sum of the rate of the progressive tax and the interest rate of turnover credit becomes the measure of losses, i.e., the profits forfeited if, instead of increasing the size of its own fund in turnover, the enterprise designates the income brought in to increase wages.

An added benefit of the above principles is their strong effect on the freeing up of raw and other material reserves and reserves of other semi-finished products, which, when directed to other producers, will bring about an increase in the rate of production.

In the field of investments, we consider it to be essential that the implementational policy in the plan for 1982 be based on the following assumptions:

1. Investments of the national economy are conceived of in two ways in the draft plan:

--as the general investment activity of the national economy,

--as concrete central investments.

The central investments comprised by the draft plan are specified by name and are planned in material-financial categories.

All remaining types of investments as well as the general investment activity of the national economy are planned in categories of the general input-output accounting.

2. The yearly plan shall mark out the developmental directions which are the subject of particular governmental concern. The task of the government is to implement these directions by the creation of suitable conditions for investors for efficient and timely investment in all areas of the national economy.

3. The plan shall specify the guidelines for the parameters or the values of the parameters guiding investment activity. It shall also outline governmental investment policy for 1982. It shall establish the guidelines for banking institutions and the directions of their operation via a credit policy suited to the economic-financial situation of investors, subject to the progress made in achieving the investment results envisaged in the plan.

4. The plan does not assign directive-type investment tasks for economic organizations. Its assumptions merely make recommendations and provide information for these organizations.

The central investments plan, with regard to the investments of economic organizations, includes:

1. the designation, on the basis of aggregated balances of production and services, of the developmental directions preferred by the centex. These constitute an informational base for the investment activity of enterprises,

2. an estimate of projected maximum financial outlays associated with the above directions,

3. a forecast of the funds possessed by economic organizations to be earmarked for investments and of the extent of bank credit.

5. In the draft plan for 1982, all investments which have begun to be implemented, whether continued or halted, shall be classified according to a uniform type-structure for investments, and the principles of their continued financing shall undergo the appropriate changes. To this end, the Planning Commission under the Council of Ministers, acting by agreement with the proper ministries and banks, in the course of its work on the draft plan, shall conduct negotiations with those enterprises which are investors in investments in progress, for the purpose of coordinating the principles and conditions for continuing them in 1982 and during subsequent years.

The Planning Commission under the Council of Ministers shall designate a list of investments in progress which it proposes to implement in 1982 as central investments in the understanding of the new principles of investment. This list shall be adopted as the basis for negotiations with economic organizations. This list of continued central investments, cleared with enterprises, must be approved by the Council of Ministers and the Sejm while the preparation of the draft plan is still in progress.

6. In the course of negotiations on the principles and conditions of continuing investments in progress in 1982, the following premises should be observed:

1) the financing of investments according to their previous forms and principles ceases at the latest on 31 December 1981.

2) enterprises themselves should decide which investments they wish to continue, based on their own funds or under the condition that they secure bank credit,

3) a change of investors is permitted if, in the course of negotiations, it is acknowledged that under conditions of a reformed economy, another investor shall guarantee the more efficient implementation of the given investment, and then, the more effective utilization of the newly created production or service capacities,

4) those investments which enterprises do not wish to continue based on their own funds alone or for which they do not secure credit, may be continued by several enterprises jointly or on the basis of foreign capital (joint ventures),

5) with regard to other investments in progress, the following actions should be taken (in order of preference):

a. a joint venture may be created with a partner from socialist countries,

b. a joint enterprise with firms from socialist countries may be created,

c. with regard to investments of great importance to the economy, which enterprises choose not to continue using their own funds, the appropriate ministry concludes a contract with one of several enterprises in cooperation with a bank, to implement the investment and immediately to include it among central investments; the contract defines the state's share in the form of budgetary subsidies and, if need be, other economic preferences, e.g., guaranteeing sale at specified prices. An alternative may be the opening of a new enterprise to operate on the basis of the new investment.

Finally, we believe that the rights of enterprises in the processing industry in the area of foreign trade are subject to basic restructuring within the framework of economic reform. In particular this restructuring should consist of the following:

1. The right of enterprises to possess their own accounts and foreign-exchange funds in the Trade Bank is recognized, as well as their freedom to utilize these funds for purposes justified by their production or development needs, under the

condition that they obtain import approval (import license) from the Ministry of Foreign Trade. The importation may be carried out with the use of the enterprise's own funds or on credit acquired domestically or abroad.

2. A tax on the foreign-exchange net profits of enterprises is initiated, i.e., profits after foreign-exchange outlays are deducted. The tax is calculated in advance, separately for every transaction and finally once a year for all trade from a given payments area. We propose the following taxation system.

Percentage share of foreign-exchange net profits in the total earnings of an enter- prise for the year	Percentage tax rate	Distribution of relative foreign- exchange profits (calculated cumulatively)	
		for the enterprise	into the budget
up to 5.0	85	0.75	4.25
5.1--10.0	80	1.75	8.25
10.1--15.0	75	3.00	12.00
15.1--20.0	70	4.50	15.50
20.1--30.0	65	8.00	22.00
30.1--40.0	60	12.00	28.00
40.1--50.0	55	16.50	33.50
over 50.0	50	21.50	38.50

The adoption of the principle of applying the formula of taxing foreign-exchange profits clarifies for enterprises what funds they have or what funds they have available for production and developmental purposes; it provides an indispensable perspective for the independent making of economic decisions in the sphere of foreign trade and, consequently, for the responsible and reliable undertaking of trade obligations.

The proposed rate and tax system offer producers a very strong incentive to export.

3. The tax on foreign-exchange income is collected during the course of foreign-exchange redemption from the enterprise's foreign exchange account by the bank acting in the name of the budget, at the compulsory rate of exchange on the day payment is received from the foreign contractor.

4. During the transitional period, the use of foreign-exchange settlement of accounts is permitted between domestic enterprises. The purpose of this is to create conditions for the rationalization of import from the viewpoint of the interest of the economy as a whole: it will be cheaper and, perhaps, generally more profitable for the manufacturer to purchase the essential raw and other materials, and even cooperative elements, domestically than abroad.

Foreign exchange income of domestic enterprises issuing from domestic settlement of accounts are subject to the normal foreign-exchange taxation going into the budget.

5. Production and service enterprises acquire the right to enter into international agreements and economic relations, on the condition that such are approved by the appropriate minister and that they fulfill the obligation of registering in the Polish foreign trade house and the registry of enterprises. At the same time, they acquire the right to undertake economic endeavors domestically and abroad making use of the foreign funds of socialist and capitalist countries, under the above conditions.

6. Production and services enterprises have the freedom to select foreign trade enterprises for the implementation of the export and import ventures (transactions). The danger of competition among particular phz [foreign trade enterprises] on foreign markets should be limited by means of the creation of sector agreements of production enterprises having the task of coordinating their activities in the field of trade turnovers abroad.

7. It is assumed that foreign trade enterprises operate on foreign markets at their own expense and their own risk and not as commissioned agents. This should bring about a considerable improvement in the effectiveness of foreign trade and should reduce selling costs.

8. In order to enable access to foreign-exchange funds by economic organizations operating exclusively in the sphere of domestic production-trade relations or in a nonproduction sphere, the distribution of these means should be continued temporarily, on the condition that the foreign-exchange allotments for economic production and services units occur at a rate that approximates the market rate.

Foreign-exchange allotments have a product-type character in purpose. They are granted by the Trade Bank upon a recommendation to this effect made by interested institutions, to the extent that the funds are available.

9. The sale of foreign-exchange funds for the needs of the population is conducted by the NBP [Polish National Bank] at an exchange rate approximating the market rate.

I believe that the rationing program outlined above, in areas of controversial economic drafts plans and systems solutions, may awaken public discussion over the problems of next year's central plan and will enable the greater clarification of the role it is to play in getting us out of the current crisis.

8536

CSO: 2600/78

MINISTER DISCUSSES RESTRUCTURING OF METALLURGICAL, MACHINERY INDUSTRIES

Warsaw ZYCIE GOSPODARCZE in Polish No 46, 15 Oct 81 p 9

[Interview with Zbigniew Szalajda, minister of metallurgy and machinery industry, by Aleksander Jedrzejczak: "Changes Within Reason"; date and place not given]

[Text] [Question] I am not claiming that, after your ministry announced its intentions, we received only letters--which we publish elsewhere in this issue--demanding that the machinery industry provide greater assistance to other sectors of the economy, or even that most of the letters were in that category.

[Answer] I bet that most of the letters concerned the further spread of motor vehicles.

[Question] Of course, as always, they did.

[Answer] What conclusions do you draw from it?

[Question] Letters to the editor are not a representative sample, but even so it is worth noting that "people are very attached to their dreams."

[Answer] Precisely, and we will speak here of matters that are rather unpleasant, of necessities that many accept reluctantly or refuse to recognize at all, as well as of issues that at first glance clash with the slogan "Endure." It is easy to guess the direction in which you are steering this interview, so let me tell you in advance that the range of our production must include a certain amount of products of which people dream and for which they are ready to sacrifice something, abstain from something, force themselves to think and exert a greater effort. This, however, is only by and by.

We are converting some factories to the kinds of production that are most needed, even though this involves considerable economic and technical problems.

[Question] I toured the Chemak Plant and the Zygmunt Iron and Steel Plant and there I heard these issues mentioned. But for the moment I should like to return to the question of the assistance of heavy industry for other branches and sectors, as requested in those letters to the editor, since those other branches and sectors much more directly affect [the nation's ability to] "Endure." In the hierarchy of human needs, milk and shoes rank ahead of, say, stereo radios.

[Answer] But I would prefer to describe competently--that is, more broadly--the ministry that I happen to direct, and especially what we already have done and are doing under emergency programs. I am not saying this in order to boast about past accomplishments but in order to point to certain dependences, interconnections, limitations. Then my reservations too will be understood more easily.

[Question] Let us begin with metallurgy. Power experts, or at least some of them, claim that the energy shortages will necessitate curtailing steel output to 15 or even 12 million tons annually. They consider it an indispensable prerequisite for restoring the equilibrium of the energy balance.

[Answer] This year steel output will be about 15.5 million tons; that is, 4 million less than last year.

[Question] That is about as much as in the early 1970's.

[Answer] We produced exactly as much steel in 1973. And it appears that we will produce only that much until the end of this decade.

[Question] You do not anticipate a decline to 12 million tons?

[Answer] What I anticipate, what I must consider and what I must be prepared for in view of the realities and the nation's indispensable needs--that is one thing. As for the current, numerous prescriptions for rescuing the Polish economy, that is another thing. Prescriptions for salvation are written the more easily the less one is aware of the economic realities of the branches and sectors. I am familiar with that prescription based on 12 million tons--how nice. The only problem is that it would first be necessary to create and build an industry capable of satisfying the nation's needs with such a low steel output, whereas plants capable of processing the currently produced steel already exist and they must adapt themselves to the gradual structural changes within the ministry.

[Question] But some radical surgery is needed.

[Answer] The term "surgery" is not particularly felicitous. We are deliberately curtailing production. This year, for example, we shut down the three most energy-intensive blast furnaces and seven open-hearth furnaces, selected on the basis of standard-criteria. This was insufficient. Technological considerations--you must accept this term and pass it on to your readers; I cannot here explain the interconnections and interrelations in iron and steel plants--precluded the possibility of closing other, most energy-intensive units in the older iron and steel plants. We thus settled for the repair of one blast furnace each in the Lenin and Katowice iron and steel plants. I am not even mentioning coke-oven batteries, they require no explanation.

We attempt to minimize the inconveniences experienced by our customers due to the curtailment of production; above all, we try not to confuse the actually determined priorities. Hence we have been curtailing the production of quality-steel products as little as possible. We keep up production in areas deemed most important by the government program for emerging from the crisis.

[Question] But there have been horrendous complaints made by the metal plants.

[Answer] Unfortunately, the scale of the necessary restrictions is so large that the established principles for selection cannot always be followed. The shortages are even beginning to spread to the protected spheres. And yet, 4 million tons of steel is a lot and, above all, its consequences are far-reaching.

[Question] I would not reduce all complaints to a suddenly reduced supply of steel.

[Answer] This was not my intention either, please understand. At all such plants the good of the state is in collision with the good and interests of the individual plant; the problems ensue chiefly from the generally adopted principles for coal allocation. When the supply of coal, liquid fuels or energy is low, nearly everyone agrees that the quantities supplied to heavy industry should be reduced. This is logical, just and easy to understand. But certain plants view this differently. Their personnel cannot avoid seeing equipment that remains unused due to the fuel shortage; moreover they are aware that their curtailment of production will cause problems in other plants that need their products. Then there also are considerations of the entire economics and employment.

[Question] You are placing marked emphasis on the coal shortage, but electric power and liquid fuels also come into play.

[Answer] The coal shortage is the most important. The decline in coal extraction is a direct blow to us, chiefly due to the attendant decrease in the production of coke. It also hits us indirectly through the shorter operating hours of electric power plants and shortages of electric power.

[Question] Since we cannot discuss all the vital problems or even the greatest bottlenecks in your entire, huge ministry, let us limit our interview to changes in production structure and to the issues considered in the letters to the editor.

[Answer] Quite so, at the machinery plants we have markedly reduced the production of energy- and fuel-intensive products that are not of primary importance to the economy. Thus, we reduced the output of Syrena passenger cars by 13,000; Tarpan cars, by 1,000; San buses, by 1,000; Star trucks, by 3,000; freight cars, by 2,500. We also reduced to some extent the production of construction machinery, electric locomotives, machine tools and cranes. These restrictions will save considerable quantities of auto-body sheet metal, aluminum, castings, and forgings, as well as of such chemical products as tires, lacquers and plastics. In addition, we have curtailed the output of many luxury products; dishwashers, campers, electronic watches, stereophonic radios, radio-tape recorders and silver and gold products. For example, the production of automatic washing machines under the Blumberg license has been completely halted, as has been the production of stereophonic phonographs, electric heaters and M412-S3 magnetic tape recorders. All these products are highly import-intensive.

The released production capacities and limited material resources are being used to expand the production of standard products, while the available limited amounts of foreign currencies are being used to acquire indispensable elements and components. This perhaps justifies stating that we are focusing on such a restructuring of production programs as would allow--with optimally utilizing the limited material resources and foreign-exchange funds--concentrating on the production of goods most needed by society.

[Question] This probably also concerns production for agriculture.

[Answer] Above all, this concerns the production of machinery and spare parts for agriculture, especially for private farms. We are curtailing the production of, among other things, grain harvesters, self-propelled straw cutters, potato harvesters and other high-capacity machines while at the same time increasing the production of the equipment used chiefly by private farmers: haymaker-rakers, sheaf-binders, potato-digging machines, mowers, harrows and plows. This list is, of course, not exhaustive. Agricultural machines exist in a broad variety. At the same time, we are developing and starting the production of new and completely modernized machines such as twin-axle manure spreaders, portable all-purpose sprayers and seeder-seed dressing machines.

[Question] Would you name the plants that are rapidly retooling for production for the needs of agriculture?

[Answer] It is best if I begin by naming a couple of examples. The Rawent Plants in Skierniewice--here I name only the plants under the Ministry of Metallurgy and Machinery Industry--undertook the production of straw and hay blowers. The technical equipment plant in Gliwice started to produce grinding rollers. The Zygmunt Iron and Steel Plant started to produce tractor-drawn rototillers; the Chemak Plant in Bydgoszcz, container equipment for cooling milk in containers; and the Ostrowiec and Stalowa Wola iron and steel plants, elements of cultivators and tractor-drawn harrows. Due to these steps, this year the supply of agricultural equipment for private farms will reach about 16 billion zlotys compared with 14-odd billion last year.

[Question] Farmers' representatives are still protesting that this is too little. There is no need to prove that they are right.

[Answer] Please do not forget that the oversights had been growing many years, while the needs of agriculture are extremely varied. I have just mentioned that we are increasing the output of equipment needed by private farmers at the expense of, among other things, reducing the output of large high-capacity machinery needed on large tracts. Let me now add that such a solution can be only interim, and in some ways harmful. All sectors of agriculture should have their needs equally supplied. Hence as soon as next year we anticipate expanding output of all varieties of agricultural machinery, not just those designed for smaller farms.

[Question] Would not it help to commit a larger number of plants to production for agriculture? In the Diet a deputy mentioned that that production has been undertaken by a much smaller number of plants than had been assumed.

[Answer] Broad and comprehensive steps have been taken on this matter. Offers of design blueprints and technical and technological assistance have been made and negotiations with more than 500 plants have been conducted. By now as many as 34 plants have for the first time in their existence undertaken the production of agricultural machinery. An additional 30 to 50 plants will join in that production within the next 2 or 3 months, although here the number of plants is not the decisive factor. More important are their facilities, the skills of their personnel, their supply, and organization of labor. Above all in the economy there always occurs what could be termed the limit of reason. That limit should not be exceeded under the pressure of the moment, because usually this proves an extremely costly step. Certainly, production for agriculture should be undertaken wherever warranted by organizational changes. When some important changes in technological facilities are involved, the matter becomes complicated. I have been reading many articles on this subject and I cannot resist the impression that in the imagination of their authors agricultural machinery can be manufactured from anything and with anything. This is a great misunderstanding.

Finally, there is the most difficult issue--the question of the future consequences of the abandonment of traditional types of production. The related interconnections often are quite intricate--we are supposed to provide not only implements of labor but also goods for which farmers will be willing to sell their produce. But to return to the starting point, this concerns the mass production of agricultural equipment rather than the production of discrete specimens by cottage-industry methods. This concerns, among other things, the cost and hence the prices of these products. Plants converting to the production of agricultural machinery offer their products at prices twice or thrice as high as those asked by specialized plants. Thus, here cost effectiveness should also be taken under consideration.

[Question] But still, [agricultural] machinery and implements appear to be the most important issue. You mentioned at the outset the crucial importance of the goods manufactured within your ministry. Seen from that standpoint, the machinery industry may produce a cumulative satisfying effect deriving from both the satisfaction of the wish for ownership and the high efficiency of operation.

[Answer] Surely that is so. I am not claiming either that the entire potential within the ministry has already been exploited. What concerns me is that the most spectacular solution--the conversion of entire factories or departments--is not the only solution and that soon industry's performance will be analyzed normally according to the quantity of equipment produced and the degree of demand satisfied.

[Question] You mentioned other solutions.

[Answer] It is highly important, for example, that the newly undertaken production match needs. Recently extensive consultations have been carried out to determine the needs as precisely as possible. They resulted in drafting an agreed estimate of the demand for agricultural machinery in 1982 and a tentative estimate for demand during the period until 1985 for about 300 types of machinery

and implements. Of this group, 65 varieties considered fundamental to private farms have been selected. The other types of production also will be significantly expanded. The production of many of these varieties will double compared with the current years, but 2 or 3 years will be needed to satisfy the demand. Even after such a marked expansion of output, individual *gminas* and villages will complain that, though production increased, machinery continues to be unavailable. This will continue until the market is completely saturated with agricultural equipment.

[Question] Let us now consider the issues mentioned in the letters to the editor. Agriculture is not the only branch of the economy to expect assistance from the "mother of industries." The queue is being joined by more and more branches of the food and light industry, by the trading apparatus, chemical industry, mining industry. I omit transport, because the production of motor vehicles and railroad cars is within the jurisdiction of your ministry itself and I already have information on the measures taken to save transport.

[Answer] Please do not consider my comments as direct answers to the questions from the letters. They will rather be general comments, which however should be considered. The "overheating" of industry mentioned in the letters was due to, among other things, the fact that each type of production undertaken was justified in principle but, taken together, they resulted in the current situation. The author of one letter mentions an improbable mosaic of machinery and equipment imported from abroad--should we reproduce that mosaic in the machinery industry? The entire industry, including that segment controlled by my ministry, must implement definite social goals rather than satisfy sector ambitions even if these are valid and justified when considered by experts from a given sector.

[Question] I am not speaking of overblown sector ambitions but only of what is essential to the functioning of, for example, food, textile and other plants, in which the machinery industry could help them.

[Answer] We do not avoid providing assistance, but I must consider the technological realities of the plants under the auspices of my ministry. Certain branches within my ministry have evolved in a manner that does not satisfy the current needs of our nation and economy. But still this is a large, modern, well-equipped industry. After all, we are not going to demolish and plow it up, contrary to the advice of some people. The existing industry must produce, must bring profits. Our business--ours, that is, of the central administration and the plant management and crews--is to restructure that potential on the run, as it were. What is needed is not demolition but change at the lowest possible cost so as to retool to the production of the most needed things: agricultural machinery, spare parts, manufactured consumer goods and, what is particularly important, profitable export products. This was what, among other things, I meant when I declared that the existing industry must earn the funds for the necessary structural changes, seek markets for what it can produce, earn from exports and use the resulting funds to finance the necessary changes, while at the same time use the earned foreign-exchange funds to help others and primarily to restore the equilibrium of our balance of payments.

[Question] Strange things are often heard concerning the profitability of exports of heavy-industry products.

[Answer] This is a major subject in itself. For the present we must be content with the most general thesis of the need to export what is profitable. And profitable products are not necessarily those so considered by common opinion. Among us, for example, there has arisen the belief, disproved for quite a long time now, that only the exports of highly processed products are profitable. No one is drawing conclusions from the fact that Swedes export not only medical equipment and electronic products but also iron ore, for example. Instead of believing in myths, let us calculate accurately. The decisive factors are productivity and the demand on world market; that is, prices. Under our conditions and those of the world market, the exports of many consumer products are unprofitable; radio sets, radiomagnetic tape recorders and many others. We will thus concentrate on profitable exports of nonconsumer goods. As for consumer goods, let them remain on the shelves of our stores, so that finally those shelves will not be empty.

[Question] This comment needs no elaboration, but I was more concerned with the extremely limited possibilities especially for the imports of spare parts for the consumer goods plants--parts that those plants themselves cannot manufacture. The machinery industry can accomplish more and operates extensive research facilities.

[Answer] What do you think? Research and development, application and technical development and the like are expensive but may result only in the production of some component that is needed in the amount of 100 units annually. This is not cost effective from the standpoint of economic common sense.

[Question] The slogan "Endure" postulates resorting to resources and methods that are nonoptimal from the standpoint of the commonly accepted categories. Seen from this standpoint, research and design may be viewed differently; they may be considered the nucleus of structural changes in the machinery industry--changes that by fairly common consensus are regarded as indispensable. The entire, and by now large, household appliance industry originated from secondary production undertaken by the plants of machinery and heavy industry within the framework of the post-October renewal.

[Answer] I repeat, please do not misunderstand me. We will not avoid assisting other ministries and sectors; we shall help in measure with our present and gradually expanded new possibilities. But these can increase only gradually. I also recognize the necessity of carrying out essential changes in production structure. But such matters cannot--even under more normal conditions--be translated into reality from 1 month to another, or even from 1 year to another. And the fanning of hopes that are not justified by economic and technical realities is to me a symptom of irresponsibility, a harmful action. I wish to avoid this at any price. The numerous currently advanced prescriptions for a quick cure of the economy--nearly all entailing heavy industry--seem so attractive and simple chiefly because they are based on extremely superficial knowledge of the

facts. Reality is more complicated. You too will certainly remain dissatisfied with this interview; you would prefer to hear more encouraging comments on the subjects broached by those letters. But I am not and do not wish to be a fabricator of illusions.

[Question] You judge me too severely. Of course, at a couple of spots in this interview I would have preferred to hear something different, but I appreciate deeply an awareness of economic realities, not only among ministers. Thank you for the interview.

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